

STATE OF NEW MEXICO
ENERGY, MINERAL AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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Case No. 15213

Application of Burnett Oil Company for a
non-standard oil spacing and proration unit and
compulsory pooling, Eddy County, New Mexico

October 16, 2014
8:15 a.m.
Wendell Chino Building
1220 South St. Francis Drive
Santa Fe, New Mexico

BEFORE: MICHAEL MCMILLAN, Technical Advisor
GABRIEL WADE, Legal Advisor

REPORTED BY: Jan Gibson, CCR, RPR, CRR
Paul Baca Court Reporters
500 Fourth Street, NW - Suite 105
Albuquerque, New Mexico 87102

For Burnett Oil:
JAMES G. BRUCE, Esq.
P.O. Box 1056
Santa Fe, New Mexico 87504
505-982-2043

For COG Operating, LLC:
OCEAN MUNDS-DRY, Esq.
Santa Fe, New Mexico

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1 (Note: In session at 8:18.)

2 MR. MCMILLAN: I will call the first case.
3 Application of Burnett Oil Company for a
4 non-standard oil spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico. Call
6 for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the applicant. I have two
9 witnesses.

10 MR. MCMILLAN: Any other appearances?

11 MS. MUNDS-DRY: Ocean Munds-Dry with COG
12 Operating, LLC. I have no witnesses this morning.

13 MR. MCMILLAN: You may proceed.

14 MR. BRUCE: Could I have the witnesses
15 sworn in?

16 COLEY MEANS
17 after having been first duly sworn under oath,
18 was questioned and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE

21 Q. Would you state your name for the record?

22 A. Coley Means.

23 Q. Where do you reside?

24 A. I live in Fort Worth, Texas.

25 Q. Who do you work for in what capacity?

1 A. I work for Burnett Oil Company as a
2 landman.

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

5 A. No, sir.

6 Q. Could you please outline your educational
7 and employment background for the examiner?

8 A. I went to undergraduate school at the
9 University of Texas Austin. Subsequently I went to
10 law school at Texas Tech University in Lubbock and
11 practiced law in Midland for a few years with the
12 Stubbeman Law Firm and then moved to Fort Worth and
13 took a job with Burnett Oil Company.

14 Q. You have been a landman for them since?

15 A. Since February of 2013. About a year and
16 a half.

17 Q. And did you do title work while you were
18 at the Stubbeman Law Firm?

19 A. I did, pretty much exclusively.

20 Q. Does your area of responsibility at
21 Burnett include this area of Southeast New Mexico?

22 A. Yes, sir.

23 Q. And are you familiar with the land matters
24 involved in this case?

25 A. I am. Some days all too intimately.

1 MR. BRUCE: Mr. Examiner, I move the
2 admission of Mr. Means as an expert petroleum
3 landman.

4 MR. MCMILLAN: How long were you a
5 practicing attorney?

6 THE WITNESS: That was a couple years, a
7 little over two years.

8 MR. MCMILLAN: Thank you. So qualified.
9 Any objections?

10 MS. MUNDS-DRY: I have no objection.

11 MR. MCMILLAN: Thank you.

12 Q. Mr. Means, could you identify Exhibit 1
13 and describe what Burnett seeks in this case?

14 A. Exhibit 1 is the Form C-102 for the
15 Partition 4H well. We are here seeking to pool all
16 uncommitted interests in the Glorietta-Yeso
17 formation underlying the east half, west half,
18 Section 13 to form a non-standard oil proration and
19 spacing unit.

20 Q. And you mentioned the well's name. What
21 will be its footages?

22 A. It will be drilled -- it's actually -- the
23 surface hole location is going to be -- let me get
24 it right here. The surface hole location is
25 actually in the northeast of the northwest of the

1 adjoining Section 24, but the entire producing
2 lateral will be in Section 13. The surface hole
3 location is 50 feet north line and 1480 feet from
4 the west line of 24. And bottom hole will be 290
5 from the north line and 1670 from the west line of
6 Section 13. This is all Township 17 South, 31 East.

7 Q. Will the entire producing interval of the
8 well be orthodox?

9 A. Yes, sir. First perf will be within a
10 legal location of 13.

11 Q. And so will the final perf?

12 A. Yes, sir, correct.

13 Q. Does the well -- has the APD been approved
14 yet and does the well have an API number?

15 A. The API number -- it does not have an API
16 number although I think the APD has been approved.

17 Q. By the BLM?

18 A. Yes, sir.

19 Q. Do you know what well the pool is in?

20 A. This well will be in the West Maljamar
21 Yeso pool.

22 MR. BRUCE: The pool code there is 44500,
23 Mr. Examiner.

24 Q. Who are you seeking to pool in this case?

25 A. We are seeking to pool Ard Oil, Ltd and

1 Ard Energy Group, Ltd.

2 Q. What interest might they own in the
3 proposed well unit?

4 A. They have a 10.8 percent working interest.
5 Actually a 10.83438.

6 Q. What is the status of the Ard interest?

7 A. The Ard interest was term assigned in
8 April of 2011 to COG Operating, LLC, and that term
9 assignment had arduous provisions, namely a 45-day
10 continuous development provision. We are unsure if
11 that term assignment remains in effect. We asked
12 both the Ard Group and COG Operating and have not
13 received an answer. So, frankly, we just don't know
14 if the interest is -- if the term assignment is good
15 or not. So in order to drill the well we are
16 seeking to commit the interest.

17 Q. Now, you mentioned COG. If the term
18 assignment is valid, COG is under a JOA with
19 Burnett, correct?

20 A. That's correct.

21 Q. So one way or the other the interest will
22 be tied up?

23 A. One way or the other. The reason to pool
24 it is in the event the assignment had, in fact,
25 expired.

1 Q. What is in Exhibit 2?

2 A. Exhibit 2 is our letter to the Ard oil and
3 Ard Energy. I call them the Ards but it's two
4 separate groups, asking for their participation in
5 this well.

6 Q. Have you ever had any response from the
7 Ards on this well, or for that matter on any of the
8 wells you've been drilling in this immediate area?

9 A. We have not. There's no correspondence.
10 They don't even pick up the mail.

11 Q. In your opinion, has Burnett made a good
12 faith effort to obtain the voluntary joinder of the
13 Ards in the well?

14 A. Absolutely.

15 Q. What is Exhibit 3?

16 A. Exhibit 3 is the AFE for the well,
17 Authority For Expenditure.

18 Q. What is the completed well cost?

19 A. Completed well is 4.4 million,
20 \$4,422,000,100.

21 Q. Are these costs in line of the costs of
22 other wells drilled to this depth in this area of
23 New Mexico?

24 A. Yes.

25 Q. Who do you request should be appointed

1 operator of the well?

2 A. We request Burnett Oil Co, Inc. be
3 appointed operator. Burnett Oil Company is the
4 actual interest under Burnett Oil Co, Inc., the
5 operating arm for Burnett Oil Company.

6 Q. Do you have a recommendation as to the
7 overhead rates?

8 A. I do. The existing JOA calls for 6,000
9 producing -- excuse me, drilling and \$600 producing.

10 Q. Are those amounts equivalent to those
11 charged by Burnett and other operators in this area
12 for wells of this depth?

13 A. Yes, sir.

14 Q. Do you request the rates be adjusted
15 periodically as provided by the accounting
16 procedure?

17 A. Yes.

18 Q. Does Burnett request the maximum costs
19 plus 200 percent risk charge if an owner goes
20 non-consent in the well?

21 A. Yes, sir.

22 Q. Were the Ards notified of the hearing?

23 A. They were.

24 Q. Is that reflected in Exhibit 4?

25 A. Per Exhibit 4, yes, sir.

1 Q. What is Exhibit 5?

2 A. Exhibit 5 is our Notice to Offset
3 Operators. In this instance we only have one offset
4 operator which is COG Operating, LLC, notifying
5 them.

6 Q. Does Exhibit 5 identify the offset
7 operators?

8 A. Excuse me, sorry. I missed a page.
9 Exhibit 5 identifies the offset operators, which, as
10 I mentioned, is just COG Operating.

11 Q. COG was given notice as an offset
12 operator?

13 A. They were given notice and that's where I
14 jumped ahead on you. That's reflected in Exhibit 6.

15 Q. Were Exhibits 1 through 6 either prepared
16 by you or under your supervision or compiled from
17 company business records?

18 A. Yes, sir.

19 Q. And in your opinion is the granting of
20 this application in the interest of conservation and
21 the prevention of waste?

22 A. Correct. Yes, sir.

23 MR. BRUCE: I move the admission of
24 Exhibits 1 through 6.

25 DEFENSE ATTORNEY: No objection.

1 MR. MCMILLAN: Exhibits 1 through 6 may
2 now be made part of the record.

3 (Note: Exhibits 1 through 6 admitted.)

4 MR. BRUCE: I have no further questions of
5 the witness.

6 MR. MCMILLAN: Any unlocatable interests?

7 THE WITNESS: No, sir. We have everybody
8 committed except the Ard.

9 MR. MCMILLAN: And I just want to make
10 sure, it's their working interest and that's what
11 you are after with these guys?

12 THE WITNESS: Correct.

13 MR. MCMILLAN: Okay.

14 MR. BRUCE: This is all federally leased
15 land?

16 MR. MCMILLAN: I just want to make sure
17 there was no -- any questions?

18 MS. MUNDS-DRY: No questions,
19 Mr. Examiner.

20 MR. MCMILLAN: I have no further
21 questions.

22 LARRY GALBIATI
23 after having been first duly sworn under oath,
24 was questioned and testified as follows:

25 EXAMINATION

1 BY MR. BRUCE

2 Q. Would you please state your name and city
3 of residence?

4 A. Larry Galbiati. I live in a small city in
5 between Dallas and Fort Worth, Texas.

6 Q. Could you spell your last name for us?

7 A. G-A-L-B-I-A-T-I.

8 Q. And who do you work for and in what
9 capacity?

10 A. I work for Burnett Oil Company. I'm a
11 senior geologist.

12 Q. Have you previously testified before the
13 Division as a geologist?

14 A. No, sir.

15 Q. Could you summarize your educational and
16 employment background for the examiner?

17 A. I received a bachelor of science degree in
18 biology; master's in geology, both from the
19 University of Texas Arlington. Plus I completed a
20 number of postgraduate courses in geophysics at the
21 University of Texas in North Dallas. I am licensed
22 by the State of Texas, License No. 126, and I'm
23 certified as a petroleum geologist by the American
24 Association of Petroleum Geologists.

25 I worked for Hunt Oil Company in Dallas,

1 Texas for 30 years. I worked on projects in the
2 Permian Basin, East Texas, Louisiana. I supervised
3 development, reservoir geology, the oil field that
4 Hunt discovered in Yemen, and I assisted Hunt with
5 their initial field evaluations. I have been with
6 Burnett Oil for eight years, assisting primarily the
7 geologic work across the northwest shelf in New
8 Mexico and I also assist Burnett elsewhere in the
9 Permian Basin and other places in North America.

10 Q. Are you familiar with the geological
11 matters involved in this case?

12 A. Yes, sir.

13 MR. BRUCE: Mr. Examiner, I tender the
14 witness as an expert petroleum geologist.

15 MR. MCMILLAN: So qualified.

16 Q. Before we start with the geology, could I
17 refer to you Exhibits 7 and 8, have you identify
18 them and discuss a little bit of the topographic
19 matters involved in choosing well locations in this
20 area.

21 A. Okay. Exhibit 7 is simply a USGS topo
22 sheet which shows that it's roughly flat throughout
23 this area. There are a number of sand dunes and
24 draws in the area.

25 Exhibit 8 actually shows the exclusion

1 areas and the sand dune habitat areas which make it
2 difficult to drill without damaging habitat areas so
3 horizontal drilling in this area would have a much
4 smaller impact.

5 Q. Burnett has drilled several vertical Yeso
6 wells in this area, correct?

7 A. Yes, we have. We have drilled several
8 wells through here and we were looking to find the
9 best zone throughout the Yeso, the Paddock, the
10 Blinebry for placement of horizontal wells.

11 Q. But at this point you have noted several
12 COG horizontal areas in the area and Burnett is
13 beginning to drill its horizontal wells?

14 A. Yes, sir. They flank our acreage both to
15 the north and the east as well.

16 Q. Moving on to geology, I will put two
17 exhibits together, 9 and 10. What are they and what
18 do they show?

19 A. Exhibit 9 is a simple structure on the top
20 of the Yeso with a Paddock, and Exhibit 10 is the
21 base of the Paddock, which I'm also calling top of
22 Blinebry for this area.

23 Q. Is the structure fairly flat?

24 A. Yes. The contours that you see on here
25 are ten-foot contours and structure does not play a

1 great deal of significance since it is somewhat
2 flattish but it is kind of rolling. But we are
3 looking at an overall interval within the Blinebry
4 porosity that we will be targeting within that upper
5 Blinebry section.

6 Q. Let's move on then. Exhibit 11. What
7 does that reflect?

8 A. Exhibit 11, I have gone through and mapped
9 the porosity within the upper Blinebry. Sometimes
10 it's kind of hard for me to tell within the older
11 logs of about a 2 to 3 percent, so this is --
12 basically it just shows how much porosity there
13 could be within the upper Blinebry section.

14 Q. And the upper Blinebry will be the main
15 horizontal target?

16 A. Yes, sir. That is what we have determined
17 will be our best section.

18 Q. Let's move on. You've prepared a
19 cross-section, have you not?

20 A. Yes, sir.

21 Q. Could you -- I don't see the -- I think I
22 see the line of cross-section but could you explain
23 where it goes?

24 A. Okay. This is a cross-section, which what
25 I have done is there's a sketch here of where the

1 Partition 4H would traverse. The cross-section
2 runs -- basically it is a south to north
3 cross-section, and I'm projecting in the Partition,
4 the Burnett Oil Partition Federal 1 and the Burnett
5 Oil Nosler Federal 1.

6 The target that we're looking at is in
7 this upper -- what I'm calling the upper half of the
8 Blinebry. We have got some pretty significant oil
9 shows both in chromatograph and mud log shows
10 running through this area.

11 Looking at the Partition No. 1 in the
12 target zone, the upper Blinebry, it only outputted
13 30 barrels a day and the Nosler Federal 1 in the
14 upper Blinebry tested an initial potential of 130
15 barrels of oil a day. It's through that zone is
16 what we are proposing.

17 Q. Now, when Burnett drills and completes
18 these wells, do they target their perforations in
19 various zones in the Yeso?

20 A. Yes, that's exactly what we do. We are
21 looking for trying to put in the best possible
22 locations we can put these wells through. We're
23 talking porosities.

24 Q. In looking at Exhibits 11 and 12, is the
25 Yeso continuous across the length of the proposed

1 well?

2 A. Yes, sir. And the porosity is continuous
3 on the Yeso maps.

4 Q. From a geological standpoint do you
5 believe each quarter section in the well will
6 contribute to production?

7 A. Yes, sir.

8 Q. Are there any faults in the area that
9 would preclude you from successfully drilling
10 horizontal wells?

11 A. No, we see nothing in the geophysics that
12 identify any type of faulting in the area.

13 Q. In this area is there any preferred
14 orientation for horizontal well units stand-up or
15 lay-down?

16 A. No. We have, in each of the wells, we
17 have tried to do as much science as we can in our
18 earlier wells, and using the FMI, the formation
19 marker imaging logs we are seeing a stress
20 orientation essentially or in most cases southwest
21 to a northeast orientation. So whether you're going
22 through it north/south or east/west, essentially
23 it's the same.

24 Q. And is Exhibit 13 simply the directional
25 plan for the well?

1 A. Yes, sir. That is exactly what it is. I
2 define the landing points and the ending points and
3 Coker International did the details of defining them
4 more precise.

5 Q. The terminus of the well will be slightly
6 up-dipped from the original perforation, right?

7 A. Yes, sir. Toe-up.

8 Q. Were Exhibits 7 through 13 either prepared
9 by you or compiled from company business records?

10 A. Yes, sir. I laid out the landing and
11 ending points of the plan and our consultants laid
12 out the details of the directional.

13 Q. And in your opinion is the granting of
14 this application in the interest of conservation and
15 the prevention of waste?

16 A. Yes, sir. Absolutely.

17 MR. BRUCE: Mr. Examiner, I move the
18 admission of Exhibits 7 through 13.

19 MS. MUNDS-DRY: No objection.

20 MR. MCMILLAN: Exhibits 7 through 13 may
21 be accepted as part of the record.

22 (Note: Exhibits 7 through 13 admitted.)

23 MR. BRUCE: I have no further questions of
24 the witness.

25 MR. MCMILLAN: I want some clarity. What

1 will be your first perforation or penetration point?

2 THE WITNESS: Once we get the logs we're
3 going to look at -- we will probably complete it in
4 stages and I don't know exactly the engineering
5 details but we can get you that. But we will be
6 looking at our mud logs and our gas shows.

7 MR. MCMILLAN: I want footage costs from
8 the unit boundaries.

9 THE WITNESS: They will be at the
10 standard -- what is it 330, 330? They will be at
11 standard locations. Am I answering correctly?

12 MR. MCMILLAN: Yes. And I was looking at
13 Exhibit 11.

14 THE WITNESS: The porosity map?

15 MR. MCMILLAN: Yeah. Do you have a
16 porosity of 2 to 3 percent?

17 THE WITNESS: In fact, that's what we're
18 perfing. We perfed 2 to 3 percent porosities in
19 this area.

20 MR. MCMILLAN: I have seen examples
21 essentially of this and the engineers have given 3
22 percent and zero value and the engineers were off 30
23 percent on their calculations.

24 THE WITNESS: That's what we are using as
25 our cutoff point.

1 MR. MCMILLAN: I think this is the classic
2 example where the engineering is absolutely wrong.
3 So I agree with that.

4 THE WITNESS: It amazes me. I can't
5 believe that you can get oil out of that kind of
6 rock.

7 MR. MCMILLAN: You can. The engineers
8 said 5 percent and they were completely wrong.

9 MR. BRUCE: That's why we didn't bring an
10 engineer today.

11 MR. MCMILLAN: That is true. I mean,
12 there's clear examples of that.

13 THE WITNESS: That's incredible. And what
14 you are looking at, you notice it looks low across
15 the acres through there, but I'm just being
16 conservative with not just randomly projecting it
17 across the map of the greater porosities that we see
18 both to the west and some of the south, southeast
19 through there. So I'm --

20 MR. MCMILLAN: So you feel it's going to
21 be online with the other wells to the east?

22 THE WITNESS: The other wells to the east,
23 currently they are all drilled through the
24 lowest-most part of the Blinebry and ours -- so if I
25 was to take the entire Blinebry, 1,000 foot Blinebry

1 section, the wells to the east are just a little
2 above the tub. They are down near the bottom.

3 MR. MCMILLAN: Okay.

4 THE WITNESS: And our wells will be up a
5 little below the Paddock in the upper half where we
6 are seeing the porosity units run.

7 MR. MCMILLAN: Okay. I have no further
8 questions.

9 MS. MUNDS-DRY: No questions.

10 MR. MCMILLAN: Well, this case, I have
11 nothing else in Case 15213. We will be taking it
12 under advisement. Thank you.

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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. 15213
heard by me on October 16 2014.

Michael McNeill, Examiner
Oil Conservation Division

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REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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



JAN GIBSON, CCR-RPR-CRR
New Mexico CCR No. 194
License Expires: 12/31/14