

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

CASE 15387

APPLICATION OF EOG RESOURCES, INC.,
FOR APPROVAL OF THE BRIDGE STATE UNIT,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 1, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
MICHAEL McMILLAN, EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Michael McMILLAN, Examiner, and Gabriel
Wade, Legal Examiner, on October 1, 2015, 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: ELLEN H. ALLANIC
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8 I N D E X

9 CASE NUMBER 15387 CALLED
 10 EOG RESOURCES, INC.

10

11 WITNESS PAUL BOLAND

12		Direct	Redirect	Further
	By Mr. Feldewert	4		

13

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15	Examiner McMillan	13
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16	Examiner Wade	15, 17, 21
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17 WITNESS MATT GARRISON

18		Direct	Redirect	Further
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1 (Time noted 8:54 a.m.) tr 3

2 EXAMINER JONES: At this time let's call
3 case 15387, Application of EOG Resources, Inc., for
4 approval of the Bridge State Unit, Lea County, New
5 Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert with the Santa Fe Office of Holland
9 and Hart, appearing on behalf of the applicant.

10 And I have two witnesses here today.

11 EXAMINER JONES: Any other appearances?

12 (No response.)

13 EXAMINER JONES: Will the witnesses please
14 state your names and be sworn in by the court reporter.

15 (WHEREUPON, the presenting witnesses
16 were administered the oath.)

17 MR. FELDEWERT: I call our first witness.

18 PAUL BOLAND

19 having been first duly sworn, was examined and testified
20 as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your name, identify by
24 whom you're employed, and in what capacity?

25 A. I am Paul Boland, employed by EOG Resources,

1 Inc., and I work as a senior landman in the Midland
2 Division.

3 Q. And, Mr. Boland, have you previously testified
4 before the Division?

5 A. No.

6 Q. Would you please outline your educational
7 background.

8 A. I have a bachelor's of science in energy
9 management from the University of Oklahoma.

10 Q. And when did you receive that degree?

11 A. In 2008.

12 Q. What has been your work experience since 2008?

13 A. I have worked for EOG only for the last
14 six-and-a-half-years approximately. I have worked out
15 of the Corpus Christi Division, the San Antonio Division
16 and, most recently, the Midland Division, working the
17 Delaware Basin for the past year.

18 Q. With respect to your responsibilities once you
19 moved to the Midland Division, did those
20 responsibilities as a landman include the Permian Basin
21 of New Mexico?

22 A. Yes.

23 Q. Are you a member of any professional associations
24 or affiliations?

25 A. Yes. The American Association of Professional

1 Landmen, the New Mexico Landman's Association and the
2 Permian Basin Landman Association.

3 Q. How long have you been a member of the American
4 Association of Petroleum Landmen?

5 A. Approximately seven years.

6 Q. And what about the other two organizations?

7 A. Approximately one year each.

8 Q. Are you familiar with the application filed in
9 this case?

10 A. Yes.

11 Q. Are you familiar with the status of the lands in
12 the subject area?

13 A. Yes.

14 MR. FELDEWERT: I would tender Mr. Boland as
15 an expert witness in petroleum land matters.

16 EXAMINER JONES: Mr. Boland, do you go to the
17 courthouse and research -- do abstract work or do you
18 call -- do you contract that out?

19 THE WITNESS: We contract that out for the
20 most part.

21 EXAMINER JONES: Mr. Boland is so qualified.

22 Q. Would you please turn to what has been marked as
23 EOG Exhibit 1, first identify it and explain what the
24 company seeks under this application.

25 A. This is the proposed unit agreement for the

1 Bridge State Units, which comprises 3,520 acres in Lea
2 County, New Mexico, which is what we are seeking
3 approval of.

4 Q. And does this particular agreement follow the
5 state form?

6 A. Yes, it does.

7 Q. And it contains an Exhibit A which provides an
8 outline of the proposed unit, correct?

9 A. That is correct.

10 Q. And then does it also contain as Exhibit B an
11 ownership breakdown by tract foot and acreage?

12 A. That is correct.

13 Q. Is this -- now the form here is state and fee
14 exploratory unit, but is this also state acreage?

15 A. Yes, it is.

16 Q. And is this particular agreement for both
17 horizontal and vertical well development?

18 A. Yes.

19 Q. What depths are being unitized under this form
20 agreement?

21 A. All depths.

22 Q. What interval or formation does the company
23 initially seek to develop?

24 A. The Bone Spring.

25 Q. And, in fact, if I look at paragraph eight of

1 this particular agreement, is that the formation that
2 will be targeted by the initial unit well?

3 A. Yes.

4 Q. And have you had the opportunity to sit down with
5 the State Land Office and discuss this particular unit?

6 A. Yes. We have met with them twice in person and
7 have had multiple telephone conversations.

8 Q. And have you spoken with them recently about the
9 status of their preliminary approval?

10 A. Yes, yesterday.

11 Q. And what were you informed?

12 A. It's my understanding that the preliminary
13 approval letter is sitting on the Commissioner's desk
14 awaiting execution.

15 Q. So we don't have it yet?

16 A. No, sir.

17 Q. Did they indicate to you that they were going to
18 preliminarily approve the unit?

19 A. Yes.

20 Q. Are there any uncommitted working interest owners
21 for this particular unit?

22 A. Yes.

23 Q. Who is that?

24 A. Oxy Y-1 Company.

25 Q. Now this is a voluntary unit, correct?

1 A. Yes.

2 Q. What context have you had with Oxy Y-1 about
3 joining this voluntary unit?

4 A. We have had both e-mail and telephone exchange in
5 regards to the unit and their participation.

6 Q. And what is your understanding of the status of
7 their decision on participation?

8 A. They are still taking it under advisement.

9 Q. Okay. Are there -- have you sent them a copy of
10 the unit agreement?

11 A. Yes.

12 Q. Are there any overriding royalty interests in
13 these state leases?

14 A. Yes.

15 Q. And did the company provide notice of this
16 hearing to these overriding royalty interest owners?

17 A. Yes.

18 Q. And, in fact, these overriding royalty interest
19 owners, are they the companies from which you acquired
20 your interest?

21 A. Yes.

22 Q. When I say "you," I should say EOG.

23 A. Yes.

24 Q. And is the affidavit providing notice of this
25 hearing to these overriding royalty interest owners

1 attached as EOG Exhibit 2?

2 A. Yes.

3 Q. And the entities would be Yates Petroleum, ABO
4 Petroleum, and MYCO Industries, correct?

5 A. Yes, sir.

6 Q. And with respect to this effort to unitize, do
7 you already have contractual authority from these three
8 entities to unitize this acreage by virtue of the
9 assignments?

10 A. Yes.

11 Q. Were EOG Exhibits 1 and 2 prepared by you or
12 compiled under your direction and supervision?

13 A. Yes.

14 MR. FELDEWERT: I move the admission into
15 evidence of EOG Exhibits 1 and 2.

16 EXAMINER JONES: Exhibits 1 and 2 are
17 admitted.

18 (EOG Resources, Inc., Exhibit 1 and 2 were
19 offered and admitted.)

20 MR. FELDEWERT: I have no further questions
21 of this witness. We will be calling a geologist.

22 EXAMINER JONES: Okay. Go ahead, Mike.

23 EXAMINER McMILLAN: Go ahead.

24 EXAMINER JONES: Gabe.

25 EXAMINER WADE: You start.

1 EXAMINATION BY EXAMINER JONES

2 EXAMINER JONES: There is a hole, it looks
3 like, in the southwest of the northeast of section 27.
4 Is that -- how come?

5 THE WITNESS: We have done preliminary
6 research on that acreage, and it appears to be an HBP
7 old state lease. And our records, as far as the
8 ownership, are inclusive. And so we felt uncomfortable
9 given the timing including that acreage in the unit at
10 this time.

11 We did talk to the State Land Office about
12 this particular issue as well. And as development of
13 the unit acreage progresses to the east, we intend to
14 fully utilize that acreage and communitize it with the
15 unit acreage.

16 EXAMINER JONES: So you can always drill
17 it and communitize it or compulsory pool it if need be.

18 THE WITNESS: Yes. We would like to
19 communitize it.

20 EXAMINER JONES: Are you familiar with the
21 pool in this general area for the Bone Spring? Is there
22 a pool or is this -- is there any existing wells out
23 here in the Bone Spring? You are going for all depths
24 anyway, though, correct?

25 THE WITNESS: Correct.

1 EXAMINER JONES: Okay. And also the
2 south -- there's a couple of notches in the unit, in
3 like the northwest of the -- the northeast of the
4 northeast of 20. So if you had your preference, you
5 would have a smooth unit boundary; is that correct?

6 THE WITNESS: Yes.

7 EXAMINER JONES: Okay. Our rules have a
8 statement that covers state exploratory units, including
9 them as a project area. You'd want that relief also; is
10 that correct?

11 THE WITNESS: Yes.

12 MR. FELDEWERT: Mr. Examiner, I think you
13 are correct, under the Division rules this automatically
14 would be a project area.

15 EXAMINER JONES: Okay.

16 If the pools are the same, your surface
17 commingle -- I mean that would be not an issue either.
18 But also your setbacks between wells within adjacent
19 spacing units will be not a problem.

20 THE WITNESS: Yes.

21 EXAMINER JONES: So Pete didn't tell you
22 when the Commissioner would sign this thing?

23 THE WITNESS: No, he didn't know. He said
24 it was on his desk waiting. It could be today, it could
25 be a week from now, just depending on the Commissioner's

1 schedule.

2 EXAMINER JONES: He may be out golfing with
3 the guys.

4 THE WITNESS: No comment.

5 EXAMINER JONES: I better pass this on to
6 the --

7 EXAMINATION BY EXAMINER McMILLAN

8 EXAMINER McMILLAN: What is that well in
9 section 22, that horizontal well producing?

10 THE WITNESS: That is not a producing well.
11 It's a permitted well. It is a well that is maintaining
12 that lease with its operations. That is a well that we
13 acquired from Yates Petroleum.

14 EXAMINER McMILLAN: And you are trying to
15 work on something in the northeast -- is the northeast,
16 the northeast of section 20, is that going to be part of
17 the unit?

18 THE WITNESS: It's not proposed to be a part
19 of the unit. That is private ownership. And, again, as
20 we progress that way in our development, we will look to
21 include them in our project.

22 EXAMINATION BY EXAMINER JONES

23 EXAMINER JONES: These state leases, as of
24 this, did they include a segregation clause for those
25 leases or what kind of segregaton clause did they use

1 for these exploratory leases?

2 THE WITNESS: The base lease doesn't have
3 any, but the unit agreement does.

4 EXAMINER JONES: So it's not a strict
5 segregation; it's a modified segregation?

6 THE WITNESS: Yes.

7 EXAMINER JONES: So we're not seeing the
8 proposed breakdown of ownership, but we got your
9 testimony that you've got enough interest to control
10 formation of the unit. That's what we got so far.

11 THE WITNESS: Exhibit B has the breakdown of
12 the ownership, although it may not indicate the total
13 percentage of the parties on a unitized basis.

14 But EOG is the record title owner of all
15 leases in the proposed unit. And as far as the
16 operating rights go, Oxy Y-1, if participating, would
17 have approximately 11 percent operating rights with EOG
18 has the balance, so...

19 EXAMINER JONES: So you got 89 almost, 88
20 and 1/2 percent, all under EOG as the lessee.

21 THE WITNESS: Yes, sir.

22 EXAMINER JONES: And EOG is also a working
23 interest owner, the same percentage?

24 THE WITNESS: Yes, sir -- well, record
25 title, we have 100 percent. Operating rights, we would

1 have approximately 89 percent in the unit area.

2 EXAMINER JONES: Go ahead.

3 EXAMINATION BY EXAMINER WADE

4 EXAMINER WADE: So I guess I'm a little
5 confused. Are you asking for the approval of a unit or
6 a project area?

7 THE WITNESS: A unit.

8 EXAMINER WADE: Under what rule?

9 MR. FELDEWERT: There is a Division rule
10 that discusses units. If you also look at the state
11 form, in the whereas clause, it states that the Division
12 approves the units.

13 EXAMINER WADE: The unit agreement from the
14 State Land Office?

15 MR. FELDEWERT: Yes. So if I look at
16 the whereas -- now, granted, there is a Division rule
17 that discusses units. And we've had some issue over
18 exactly what that rule means. But as you know, the
19 Division has historically approved units.

20 EXAMINER WADE: I am not seeing any citation
21 in your application, so that's why I'm asking.

22 MR. FELDEWERT: Correct. Because I'm not
23 sure that rule actually applies to this. That would
24 appear, in my opinion, to apply to segregated recovery
25 units.

1 EXAMINER WADE: Okay. And did you find the
2 whereas clause?

3 MR. FELDEWERT: Yes. If you look at the
4 first page of the unit agreement -- it's not the cover
5 page, not the index, but it would be the third page, the
6 fourth whereas clause.

7 EXAMINER WADE: What is the title?

8 MR. FELDEWERT: The fourth whereas clause on
9 the third page. It says, "Whereas the Oil Conservation
10 Division of the" --

11 EXAMINER WADE: Okay. I see it. And it
12 just cites generally to 70-2-1?

13 MR. FELDEWERT: Yes.

14 EXAMINER WADE: So the whole chapter?

15 MR. FELDEWERT: Yes.

16 EXAMINER WADE: And do you know specifically
17 what section would apply that gives us this
18 jurisdiction?

19 MR. FELDEWERT: I would have to take a look.

20 EXAMINER JONES: Are we giving away
21 jurisdiction here?

22 EXAMINER WADE: I don't know if the State
23 Land Office is giving it away. I don't know if we want
24 this jurisdiction.

25 MR. FELDEWERT: I recall seeing at one point

1 in time provisions that one could interpret as
2 authorizing the Division to approve units. I am looking
3 at 70-2-17, subparagraph E, as in Edward. I'm not saying
4 that that's exactly what it means, but one could
5 interpret that.

6 EXAMINER WADE: Is there a question?

7 EXAMINATION BY EXAMINER JONES

8 EXAMINER JONES: Yes. I was just going to
9 ask one question.

10 The advertisement for the unit is -- is it
11 the same as -- in other words, did Pete change this unit
12 yesterday when you talked to him -- had it contracted or
13 expanded into lands that weren't advertised here?

14 THE WITNESS: No, sir.

15 EXAMINER JONES: Okay.

16 EXAMINATION BY EXAMINER WADE

17 EXAMINER WADE: I guess you -- I might have
18 missed this, you said this was a voluntary unit -- we
19 are calling it a unit. But what agreement shows it is a
20 voluntary? What proof do you have of that?

21 THE WITNESS: I think by definition this
22 exploratory unit is voluntary. We cannot force Oxy Y-1
23 to participate.

24 EXAMINER WADE: And that's through the State
25 Land Office unit agreement?

1 THE WITNESS: Yes.

2 MR. FELDEWERT: Well, the Statutory
3 Unitization Act does not apply to primary recovery
4 units. It only applies to secondary.

5 So there's no statutory authority to force
6 any party into an exploratory unit. Therefore, the only
7 mechanism to bring together their interest into an
8 exploratory unit is by contract. So that is why this is
9 a voluntary unit.

10 EXAMINER WADE: If you execute a unit
11 agreement with the State Land Office, it's then a
12 project area.

13 MR. FELDEWERT: Correct, by definition.

14 EXAMINER WADE: Why wouldn't you apply just
15 for a project area? Why wouldn't the application be for
16 a project area?

17 MR. FELDEWERT: Because it's a project area
18 by rule. There is no application needed.

19 EXAMINER WADE: But I guess what are you
20 asking us to approve, then?

21 MR. FELDEWERT: I'm asking you to approve
22 the combination of the lands into a unit, and by virtue
23 of the fourth paragraph here, in this unit agreement,
24 the whereas clause, it states that the Oil Conservation
25 Division is authorized by the Act, and they cite the

1 statute to approve this agreement and the conservation
2 provisions thereof.

3 EXAMINER WADE: So you think that
4 70-2-17(D) --

5 MR. FELDEWERT: Well, all I can say is that
6 someone at some point in time made the legal
7 determination that the Oil and Gas Act, 70-2-1, et seq.,
8 authorizes the Division to approve this unit agreement.

9 EXAMINER WADE: But we don't know who or
10 when.

11 MR. FELDEWERT: I personally do not.

12 EXAMINER WADE: Okay. And did you talk
13 about notice to offset operators? Are we asking for any
14 kind of variance in setbacks?

15 MR. FELDEWERT: No.

16 EXAMINER WADE: It's all statewide rules?

17 MR. FELDEWERT: Correct.

18 EXAMINER WADE: And how would you report
19 production?

20 THE WITNESS: I would have to go back and
21 look specifically as to how that works.

22 EXAMINER WADE: So you don't know at this
23 time?

24 THE WITNESS: Production would be allocated
25 on a surface acre basis in the unit area. So should

1 Oxy Y-1 participate, our interests are spread across the
2 entire unit area.

3 As far as reporting the production to the
4 applicable Division, I am not certain at this time.

5 EXAMINATION BY EXAMINER JONES

6 EXAMINER JONES: This Oxy Y-1 looks like
7 they own basically 20 percent of four different tracts.
8 So if you don't get their joinder, those tracts will
9 drop out, so you will only be left the first four tracts
10 in the unit; correct?

11 THE WITNESS: That's not my understanding,
12 that these acres would still be committed to the unit.
13 Those four leases, we actually have an operating unit
14 with Oxy by which we could propose wells if necessary.

15 EXAMINER JONES: So --

16 THE WITNESS: They have an undivided
17 interest in each one of these leases. And so I think
18 the acreage would still be included within the unit
19 boundaries by virtue of our interest in those leases.

20 EXAMINER JONES: Because you own the majority
21 of these tracts?

22 THE WITNESS: Yes, sir.

23 EXAMINER JONES: So Pete would go ahead and
24 include those, but when you went to drill a well, of
25 course you propose on a drill lot basis --

1 THE WITNESS: Yes, sir.

2 EXAMINER JONES: -- and if they don't
3 participate, they would get compulsory pooled?

4 MR. FELDEWERT: Correct.

5 EXAMINER JONES: Okay.

6 EXAMINATION BY EXAMINER WADE

7 EXAMINER WADE: I guess we've had some
8 issues with some of these unit applications regarding --
9 and I didn't see it and I don't know if you talked about
10 it -- is there a date, an effective date of this
11 exploratory unit?

12 THE WITNESS: We have not set an effective
13 date. It's pending approval via this hearing.

14 EXAMINER WADE: So the OCD would be required
15 to approve the nonexecuted exploratory unit agreement,
16 and then how would we handle an effective date? In
17 other words, when does reporting begin?

18 THE WITNESS: We will have to go back and
19 take a look at that specifically.

20 MR. FELDEWERT: Mr. Examiner, I can tell you
21 what historically has happened is that the Division
22 issues an order approving the unit, the State Land
23 Office executes the unit and that becomes the effective
24 date, and then the obligation well must be drilled
25 within 60 days of the effective date of the agreement.

1 EXAMINER WADE: So there is no production at
2 this time?

3 THE WITNESS: No, sir.

4 MR. FELDEWERT: Correct.

5 EXAMINER WADE: How will that affect
6 reporting to the OCD, then? At what time will the
7 reporting begin?

8 MR. FELDEWERT: It is my understanding -- of
9 course, the State Land Office has its recording
10 requirements -- as does the OCD -- but there is no
11 existing production, so within 60 days after the
12 effective date of this agreement.

13 EXAMINER WADE: Which is at the time of
14 execution of the state exploratory unit?

15 MR. FELDEWERT: Yes. Then you are going to
16 have production. At that time the unit will be approved
17 and so the production will be reported as unit
18 production.

19 EXAMINER WADE: And is there a continuous
20 drilling clause in here?

21 MR. FELDEWERT: If you look at paragraph
22 nine -- rather than read it into the record, it is
23 addressed by paragraph nine.

24 THE WITNESS: We have to submit annual
25 development plans to the State Land Office.

1 EXAMINER WADE: But not to the OCD?

2 THE WITNESS: No.

3 EXAMINER WADE: Would you be willing to
4 submit them to the OCD?

5 THE WITNESS: Yes.

6 EXAMINER WADE: And what happens -- if
7 continuous drilling does not occur, what happens to the
8 OCD order at that time; is it still in effect?

9 MR. FELDEWERT: Well, I assume that this
10 order will have the same language it always has, and
11 that is that Division retains jurisdiction over the case
12 for purposes of any amendments to the order it deems
13 necessary.

14 EXAMINER WADE: So would we receive notice
15 of any changes to the agreement?

16 MR. FELDEWERT: To the agreement?

17 EXAMINER WADE: To the exploratory unit
18 agreement.

19 MR. FELDEWERT: We can certainly provide
20 notice to the Division if there's any changes to the
21 exploratory unit. To the agreement, I would doubt that
22 that would occur because the Commissioner is about ready
23 to provide his approval, and they couldn't change it
24 without the State Land Office's approval.

25 EXAMINER WADE: But you are asking us to

1 approve it as well?

2 MR. FELDEWERT: Well, the agreement
3 itself -- this is from the State Land Office's form --
4 not my form -- the State Land Office's form discusses
5 the Division approving the unit agreement.

6 EXAMINER WADE: You say that the OCD has
7 historically approved units, do you mean unit agreements
8 like this which is presented before us?

9 MR. FELDEWERT: Well, all I can tell you is
10 that there have been over the years parties who have put
11 units together, they have used the required forms, and
12 they have come before the Division seeking an order
13 approving the unit.

14 I have not gone through every single order
15 to see whether it discusses approval of the unit or the
16 unit agreement or whether it even makes any
17 differentiation between the two. But you'll find
18 numerous orders from the Division approving unitized
19 units.

20 EXAMINER WADE: Units or unit agreements?

21 MR. FELDEWERT: I don't know that
22 specifically.

23 EXAMINER WADE: That's what you are saying,
24 okay.

25 MR. FELDEWERT: I am not sure it makes a

1 distinction within the orders, consciously or
2 unconsciously.

3 EXAMINER WADE: Any more questions?

4 EXAMINER JONES: No.

5 EXAMINER McMILLAN: No.

6 EXAMINER WADE: I have no further questions.

7 EXAMINER JONES: Thank you.

8 MR. FELDEWERT: Call our second witness.

9 MATT GARRISON

10 having been first duly sworn, was examined and testified
11 as follows:

12 DIRECT EXAMINATION

13 BY MR. FELDEWERT:

14 Q. Would you please state your name, identify by
15 whom you are employed and in what capacity.

16 A. My name is Matt Garrison and I'm employed by EOG
17 Resources. And I am the exploration manager overseeing
18 the Permian Basin development.

19 Q. How long have you been the exploration manager?

20 A. For two years now, and I have been employed with
21 the company for eight.

22 Q. Employed with EOG as a geologist?

23 A. Yes.

24 Q. And have you previously testified before this
25 Division and had your credentials accepted as an expert

1 in petroleum geology?

2 A. Yes, I have.

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

5 A. Yes, I am.

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

8 A. I have, yes.

9 MR. FELDEWERT: I would tender Mr. Garrison
10 as an expert witness in petroleum geology.

11 EXAMINER JONES: He is so qualified.

12 Q. We examined the unit agreement this morning.
13 What is the targeted formation or interval for the
14 initial unit well?

15 A. EOG intends to develop the Bone Spring. And at
16 this time, we have filed for the APD of the initial
17 exploratory well to be in the Second Bone Spring
18 interval.

19 But we intend to take logs and gather data and
20 decide at the time from the pilot well whether or not
21 that is, indeed, the formation we're going to go after.
22 But it will be within the Bone Spring.

23 Q. So focusing in on the Bone Spring formation, does
24 this particular formation extend across the acreage that
25 EOG seeks to be unitized?

1 A. Yes. I have provided a structure map here --

2 Q. Let me catch up here.

3 A. I'm sorry.

4 Q. If I turn to what's been marked as EOG Exhibit 3,
5 is that the structure map you are talking about?

6 A. Yes, correct.

7 Q. Okay. Explain to us what you show on here.

8 A. So in answer to the prior question about the Bone
9 Spring continuing across the proposed unit, I have
10 highlighted on this map the outline of the Bridge Unit
11 being proposed. And the structure map is at the top of
12 the Bone Spring, which is referred to in the basin as
13 the Bone Spring line.

14 The color codes -- the contours are essentially
15 100-foot contours. And you can see that to the east of
16 the Bridge Unit proposed acreage is the Central Basin
17 Platform itself. And so you can see from the log
18 control, where we have log control, we have annotated a
19 structure map that shows where the Bone Spring line is
20 present. And the Bone Spring line denotes the top of
21 the Bone Spring Formation. And so we believe it to be
22 continuous across the unit.

23 Q. And what do you observe with respect to the
24 structure itself; does it dip to the south or how --

25 A. Yes, that's correct. The shallower contours are

1 up to the north, the 77,000 to 79,000 range.

2 We do see structure dip basically down to the
3 south and the west, fairly monoclinal dip, nothing that
4 would preclude the drilling of any area on this
5 particular unit.

6 Q. Does that include horizontal wells; do you see
7 any structural impediments to developing this unit with
8 horizontal wells?

9 A. We do not.

10 Q. You also have on here various wells that you've
11 marked as part of an A to A Prime line; is that correct?

12 A. That's correct.

13 Q. Okay. And have you chosen a set of wells to put
14 together a cross section map?

15 A. Yes, I have.

16 Q. And the wells that you have chosen, are they
17 representative of the area in question?

18 A. They were all the wells that we have on the
19 proposed Bridge Unit plus a few more than extend down
20 into where the play is active.

21 Q. Before we leave this exhibit, what is the
22 significance of the star that was hand-drawn in the
23 southwestern, in the very southwestern quarter of 22
24 South, 35 East?

25 A. In the printing of the maps, I noticed that we

1 had neglected to put one of the wells that are on the
2 cross section that you'll see. There are six wells on
3 the next exhibit, and there were only five wells denoted
4 on the map. So we added the location of where that
5 second well should have been. And I apologize for that.
6 It was just a typo, and we saw it too late.

7 Q. Okay. Now if I then turn to what has been marked
8 as EOG Exhibit 4, is this the cross section that
9 corresponds with the A to A Prime list of wells shown on
10 EOG Exhibit 3?

11 A. Yes, that is correct. The Paloma Blanco Well is
12 represented at the far left of the cross section. The
13 well with the hand-drawn star is the Lenox 32 State 2H.

14 And just to kind of describe what we are looking
15 at here, we have used the same log template on all of
16 the wells that we have control on.

17 The left tract -- from left to right, the tracts
18 should be 1, 2, and 3. In the first tract, the rainbow
19 colored curve is the gamma ray curve.

20 In the second tract, we have resistivity denoted.
21 And that is shallow and deep resistivities, so you can
22 start to see areas of separation where we do have
23 shallow curves.

24 Tract No. 3 is the density and the neutron
25 porosity tract. And it gives you kind of an indication

1 of reservoir quality.

2 Q. Let me interrupt you right there just to get us
3 oriented again. If I am looking at EOG Exhibit 4, the
4 well on the very left side is the beginning of your
5 cross section; is that correct?

6 A. That is correct.

7 Q. And then the second well from the left would be
8 where the star is located on EOG Exhibit No. 3?

9 A. That is correct.

10 Q. And then the remaining four wells, are those
11 either within or right outside the proposed unit area?

12 A. That is correct. That is all the log control we
13 have that's down deep.

14 Q. Okay. Would you then explain what you see with
15 respect to the Bone Spring interval as you move across
16 this area and, perhaps, identify other various
17 formations that you can review on this map.

18 A. Sure. Because we are filing for this unit to be,
19 you know, an exploratory unit and we are denoting that
20 we are intending to drill the Bone Spring, I felt it
21 prudent to show you all the Bone Spring interval itself
22 so that we can see what we have to look at.

23 From the top down, the green formation top --
24 this is a structural cross section, so it is not
25 stratigraphically hung on any particular marker.

1 The top formation is the Bone Spring Lime.
2 Beneath the Bone Spring Lime is the Avalon Shale. The
3 Avalon Shale is mostly carbonate up here, very little
4 mud rock or shale resource clay type material, as from
5 the prior hearing.

6 Left up here -- just because of the proximity to
7 the platform -- there's too much debris coming off the
8 platform, so we don't really deem that to be an overly
9 prospective target at this time.

10 Going down to the blue marker is the first Bone
11 Spring Sand. Typically, the First Bone Spring Sand is
12 denoted by a low resistivity marker at the top. And you
13 can see in tract 2 all the wells corresponding with that
14 low resistivity marker. That is the First Bone Spring
15 Sand interval.

16 The Second Bone Spring is indicated in the brown
17 marker. And you can see again another low resistivity
18 marker denoting the Second Bone Spring Sand. And from
19 what we can tell on the logs, the sand does appear to be
20 across the entirety of the unit, at least from what we
21 can tell on the log control.

22 We do know that with the proximity to the Central
23 Basin Platform that there is some inherent risk
24 developing the east side of the lease first, which is
25 why we've proposed to drill the west side of the lease

1 closer to our known development areas.

2 The Third Bone Spring carbonate is the next kind
3 of big marker. You see the carbonate down there, cold,
4 gamma ray, purple colors, generally very tight.
5 However, it does exhibit areas of porosity within it,
6 and so we do deem the formation to be prospective as
7 well.

8 The Third Bone Spring Sand is the last marker
9 before you get to the Wolfcamp. And you can start to
10 see, as you go to the east on A Prime, the Third Bone
11 Spring Sand is demonstrating some thinning across the
12 unit. And we do believe that that is associated with
13 the movement of the platform at the time of the
14 deposition.

15 So for the first target out the gate, we've
16 decided we'd like to go after the Second Bone Spring
17 interval, just because industry has also set the
18 precedent of the Second Bone Spring within this general
19 area, and so we are going to go after that for the first
20 well.

21 Q. Do you also show on here -- I forget what you
22 call them -- some test indicators testing volume?

23 A. That's correct, yes. There are test indicators
24 from the wells. People have tested these various zones
25 either with an acid job or a small frac job, and those

1 are denoted along the tracts themselves.

2 You can see them in tract 1 generally. And they
3 will test oil. They will test water in some cases. So
4 we do believe from the test indicators there -- even the
5 DSTs that are denoted -- that the entirety of the Bone
6 Spring itself is prospective. We just need a little
7 more time to kind of evaluate how many zones are
8 prospective and get some log data to confirm it.

9 Q. Did you visit with the State Land Office about
10 your analysis?

11 A. Yes. On two separate occasions, we came up and
12 met the State Land Office geologic group, and we
13 presented to them these cross sections and maps and we
14 had very candid conversations about it.

15 Q. Given the exploratory nature of this area, did
16 they agree that it made sense to have a development
17 plan -- a unitized development plan that would allow you
18 to examine this particular area in an orderly fashion?

19 A. That's correct. And to shed some light on that,
20 the industry as a whole has developed -- if we look back
21 at Exhibit 3, the industry has set the precedent that
22 the Second Bone Spring and the Third Bone Spring are the
23 dominantly produced intervals in this area.

24 But the majority of the drilling occurs in 23,33,
25 22,33, 21,33, and, to a lesser degree, in the township

1 to the west, 22,34 and 23,34.

2 And adjacent to this particular block in 22,35,
3 Casza has tested the Bone Spring in a couple of
4 different wells, Second Bone Spring and Third Bone
5 Spring. Their well results are significantly poorer
6 than what's been established by industry two townships
7 over.

8 So we do believe that the formation is a little
9 more challenging. Geologically, you see some of the
10 effect even on this Exhibit 4. The amount of carbonate
11 being brought into the system, it seems to reduce
12 overall reservoir quality from what we can tell, from
13 further down south and west, where you see well number A
14 on the cross section.

15 Q. Have you ascertained how you'll begin developing
16 and analyzing this unitized area?

17 A. Yes. We felt in discussions with the State Land
18 Office and, internally, at EOG, we feel that it would be
19 prudent to test the Second Bone Spring first, just
20 because of the depth of the Second Bone Spring and the
21 more consistent results a township or two to the west.

22 Q. And have you decided on where you would begin
23 your development of the unit?

24 A. Yes. I don't have that in front of me right now,
25 but it's in, I believe, section 20 -- is that correct?

1 -- the surface hole.

2 Q. So if you look at EOG Exhibit 1, and we go to the
3 Exhibit A to that unit agreement, which is a map of the
4 unitized area showing the various sections involved --
5 do you have that in front of you?

6 A. Exhibit 1.

7 Q. So Exhibit 1, almost toward the end, Exhibit A, a
8 map of the unitized area. There you go.

9 A. Yes.

10 Q. Does that assist?

11 A. Yes, that's it.

12 Q. And identifying where EOG and the State Land
13 Office ascertain would be the best starting point for
14 developing --

15 A. Section 20 is where we decided we were going to
16 do it. The surface of the well would be in the
17 southwest quarter of section 20. So that would be the
18 west half of the west half. So, basically, 330 off the
19 lines, honoring the setbacks of the Bone Spring pool.

20 And we intend to drill on section 20 to the
21 northwest. So the surface hole's in the southwest,
22 drilling to the north.

23 Q. Based on your analysis, is it your opinion that
24 the formation that will be the initial target for this
25 unitized area is fairly continuous across the unitized

1 acreage?

2 A. Yes. This particular portion of the unit, we
3 have 3D seismic coverage over, so we were wanting to
4 test the first well where we have 3D seismic, where we
5 can tie in -- get some logs, tie it the seismic and do
6 the appropriate level of analysis, yes.

7 Q. Were there any faults or pinch-outs or geologic
8 impediments that would prevent this acreage from being
9 developed under an orderly unit development plan?

10 A. No, we do not see any at this time.

11 Q. In your opinion, will approval in of this
12 application be in the best of conservation and the
13 prevention of waste and of protection of correlative
14 rights?

15 A. We believe so, yes.

16 Q. Were EOG Exhibits 3 and 4 prepared by you or
17 compiled under your direction and supervision?

18 A. They were, yes.

19 MR. FELDEWERT: Mr. Examiner, I move the
20 admission into evidence of EOG Exhibits 3 and 4.

21 EXAMINER JONES: Exhibits 3 and 4 are
22 admitted.

23 (EOG Resources, Inc., Exhibits 3 and 4 were
24 offered and admitted.)

25 MR. FELDEWERT: And that concludes my

1 examination of this witness.

2 EXAMINER JONES: Go ahead.

3 EXAMINER WADE: I don't have any questions.

4 EXAMINATION BY EXAMINER JONES

5 EXAMINER JONES: So that exploration well,
6 southwest of southwest is the spud location of 20, and
7 it is going to go directly north or is it going to go --

8 THE WITNESS: Due north. We are going to
9 honor the setback lines and drill due north.

10 EXAMINER JONES: So, basically, what I heard
11 is you saying that the Bone Spring is even more prolific
12 to the southwest of here, but we are kind of moving into
13 uncharted territory here.

14 THE WITNESS: We believe that is the case,
15 yes. You can look at production maps and you can look
16 at industry activity maps, and the majority of the
17 activity in the Bone Spring is occurring one to two
18 townships west of here. So that's why we are thinking
19 this needs a little more time to assess the geology.

20 EXAMINER JONES: So what about other
21 targets? This unit goes to all depths. And is there a
22 Pennsylvanian target?

23 THE WITNESS: Good question.

24 The first well out of the gate, we intend to
25 drill the pilot well into the Wolfcamp and assess the

1 Wolfcamp as well as the Bone Spring for production
2 purposes. We would -- we play the Wolfcamp in New
3 Mexico, and so we certainly don't want to not be looking
4 at the Wolfcamp.

5 EXAMINER JONES: The Upper Wolfcamp?

6 THE WITNESS: The Upper Wolfcamp, correct.

7 EXAMINER JONES: Where is the sweet spot for
8 the upper Wolfcamp in relation to this --

9 THE WITNESS: This would be the furthest
10 north test of that particular formation. The activity
11 again is a couple of townships to the west and about one
12 township to the south, right along the Texas, New Mexico
13 border.

14 EXAMINER JONES: Okay.

15 THE WITNESS: And then, of course, in Texas,
16 the Wolfcamp is played extensively all the way down
17 through Loving and Ward Counties and Reeves.

18 EXAMINER JONES: So there's no -- these
19 members of the Bone Spring, are they unconformities or
20 are they just different transgression events?

21 THE WITNESS: No, they are not
22 unconformities. They are a case study in reciprocal
23 sedimentation. So it is sequence stratigraphy, high
24 stands and low stands. The low stand deposits are the
25 sandstones and the high stands are the carbonates.

1 Where the waters are high, the carbonates
2 flourish on the shelf, and they deposit debris down into
3 the basin. And when the sea levels are low, the shelf
4 is exposed and the sands wash in.

5 So you can track beautiful cycles up and
6 down the entire Bone Spring, so not unconformities.

7 EXAMINER JONES: And where was it charged
8 from? What was the source rock?

9 THE WITNESS: There's several theories
10 about the source. We have our own kind of internal
11 discussions on that. But we believe a lot of it is
12 sourced from the Wolfcamp. And then there is also
13 internal shale markers themselves, like the Avalon and
14 even some of the organic members of the First Bone
15 Spring. So we do believe that there's an element of
16 self-sourcing as well as migration into the Bone Spring
17 via adjacent source rocks.

18 EXAMINER JONES: Higher pressures down in
19 the Wolfcamp?

20 THE WITNESS: Yes, sir.

21 EXAMINER JONES: So it might be generating
22 right now?

23 THE WITNESS: The bottom hole temperatures
24 in the areas that we work down here don't seem to
25 suggest that we're actually in the generative window

1 anymore. But the pressure is still there, that's
2 correct.

3 EXAMINER JONES: Okay. You have a seismic
4 guy here?

5 THE WITNESS: Yes. We have the west --
6 basically, there's two surveys. There's a survey that
7 covers the east half and then there's a survey that
8 covers the west half, so two separate surveys. There's
9 a small seismic gap in the middle of the unit where the
10 surveys just didn't overlap.

11 The challenge, of course, is you've got some
12 of the Capitan Reef that sits on the top, and so that
13 does tend to have a velocity pull-up in the seismic.
14 And so we are getting a good depth log to tie into the
15 seismic, will help us constrain the pull-up on the
16 seismic.

17 EXAMINER JONES: You would run a sonic?

18 THE WITNESS: Yes, sir, we would run a
19 sonic.

20 EXAMINER JONES: So is your focus Permian
21 Basin at EOG? Are you going to spend your money in
22 North Dakota or Eagle Ford? Do you have to go argue for
23 your prospects every year?

24 THE WITNESS: Yes. Yes, our prospects have
25 to stand among the Boken and the Eagle Ford, and so we

1 are in direct competition for capital from them.

2 EXAMINER JONES: You have a pretty strong
3 case?

4 THE WITNESS: Yes, we do.

5 EXAMINER JONES: Thank you very much.

6 THE WITNESS: No problem.

7 MR. FELDEWERT: That concludes our
8 presentation.

9 EXAMINER JONES: Let's take case 15387 under
10 advisement. And let's take a 15-minute break. Try to
11 come back at five till ten.

12

13

14

15 (Time noted 9:40 a.m.)

16

17

18

19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
the Examiner hearing of Case No. _____
21 heard by me on _____.

22

23

24

25

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
2) ss.
3 COUNTY OF BERNALILLO)
4
5
6

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, October 1,
11 2015, the proceedings in the above-captioned matter were
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13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

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17 I FURTHER CERTIFY that I am neither employed by
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