

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

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

ORIGINAL

CASE NO: 14638

APPLICATION OF OGX RESOURCES 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

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BEFORE: TERRY WARNELL, Technical Examiner  
DAVID K. BROOKS, Legal Examiner

April 28, 2011

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, TERRY WARNELL, Technical Examiner, and DAVID K. BROOKS, Legal Examiner, on April 28, 2011, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis, Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253.  
Paul Baca Professional Court Reporters.  
500 Fourth Street, NW, Suite 105.  
Albuquerque, New Mexico 87102.

A P P E A R A N C E S

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FOR THE APPLICANT:  
JAMES BRUCE, ESQ  
369 Montezuma, No: 213  
Santa Fe, NM 87501  
(505) 982-2043

I N D E X

GARLAND LANG	
DIRECT EXAM BY MR. BRUCE	03
EXHIBITS	
EXHIBITS 1 THROUGH 7 ADMITTED	08
EXHIBIT 10 (AS ADMITTED THROUGH CONSOLIDATED RECORD)	09

1 EXAMINER BROOKS: Okay. At this time we will call  
2 then Case Number 14638, application of OGX Resources for  
3 approval of a non-standard oil spacing and proration unit and  
4 compulsory pooling, Eddy County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe  
7 representing the applicant. If the record could reflect, my  
8 two witnesses will be the same, Mr. Lang and Mr. Hardie.

9 EXAMINER BROOKS: Okay.

10 MR. BRUCE: Before I begin, Mr. Examiner, yesterday  
11 in the mail I received an entry of appearance from Russell  
12 Family LLC. It doesn't appear that they mailed it to the  
13 Division, so I'm just submitting that for the record.

14 EXAMINER BROOKS: Okay.

15 GARLAND LANG

16 (Having been sworn, testified as follows:)

17 DIRECT EXAMINATION

18 BY MR. BRUCE

19 Q. Mr. Lang, in this case, what does OGX seek?

20 A. We are seeking an order to approve 160-acre  
21 non-standard oil spacing and proration unit in the Bone  
22 Spring formation comprised of the west half of the east half  
23 of Section 22, Township 26 South, Range 28 East, Eddy County,  
24 New Mexico. And we further seek to pool all the mineral  
25 interests in the Bone Spring underlying the non-standard

1 spacing and proration unit.

2 The unit is going to be dedicated to the Diamondback  
3 22 State Com Number 1, which will be a horizontal well for  
4 the surface location in the northwest northeast quarter, and  
5 a terminus in the southwest southeast quarter of Section 22.

6 Q. And the well location will be orthodox, will it  
7 not?

8 A. Correct.

9 Q. Page 2 is simply the C-102 for the well?

10 A. Yes, it is.

11 EXAMINER BROOKS: Why was -- this says, the C-102  
12 says, "Diamondback 22 State Com Number 1." Is that, what you  
13 said? I thought you said Number 2. Maybe it was just the  
14 22.

15 THE WITNESS: No, I'm sorry, Number 1.

16 EXAMINER BROOKS: Number 1. Okay. Go ahead.

17 Q. And, again, will you only be force pooling the Bone  
18 Spring formation?

19 A. Yes.

20 Q. What is Exhibit 2, Mr. Lang?

21 A. Exhibit 2 is the list of working interest owners.

22 Q. And rather than going through the percentages since  
23 they are stated, which of the parties who are listed do you  
24 seek to force pool at this time?

25 A. COG Operating LLC, Concho Oil and Gas LLC,

1 Chesapeake Exploration LLC, Frank Blow Fowlkes, Christine  
2 Fowlkes and Christopher C. Fowlkes, Trey Fowlkes, Janet  
3 Murrey, Lee M. Kugle, Russell Family, LLC.

4 Q. Have you been in negotiate -- are some of these  
5 parties unleased?

6 A. They are.

7 Q. Which ones?

8 A. Frank Blow Fowlkes, Christine Fowlkes and  
9 Christopher C. Fowlkes, Trey Fowlkes, Janet Murrey, and Lee  
10 M. Kugle, and Russell Family.

11 Q. Are you in negotiations with these people to lease  
12 their interest?

13 A. We are.

14 Q. Have a couple of them indicated that they are  
15 leasing to you?

16 A. Yes, they are. We just don't have executed leases  
17 from them yet.

18 Q. And if they -- if you receive signed leases, will  
19 you notify the Division so that they are not subject to the  
20 pooling ordinance?

21 A. We will.

22 Q. And what is contained in Exhibit 3, Mr. Lang?

23 A. These were certified letters dated February 2,  
24 that -- where we sent all of the parties that were listed on  
25 this list the proposal to drill our well.

1 Q. Okay. And as to the unleased parties that are  
2 also -- do your letters also contain an offer to lease?

3 A. They do.

4 Q. And besides the letters, have you had telephone  
5 conferences or other contacts with these parties?

6 A. We have.

7 Q. Okay. The leased parties such as COG, have they  
8 indicated whether or not they will join in the well?

9 A. They're thinking about it.

10 Q. They just haven't gotten back?

11 A. They just haven't done it.

12 Q. In your opinion, have you made a good-faith effort  
13 to obtain the voluntary joinder of these parties in the  
14 well?

15 A. We have.

16 Q. And what is the cost of this well? And I refer you  
17 to Exhibit 4.

18 A. The authorization for expenditure for our  
19 Diamondback 22 State Com Number 1H, dry hole cost,  
20 \$1,383,690; completed cost, \$3,707,060 for a total cost of  
21 \$5,090,750.

22 Q. And are these costs in line with the other -- with  
23 the cost of other wells drilled to this depth in this area of  
24 New Mexico?

25 A. They are.

1 Q. Again, do you request that OGX be appointed operator  
2 of the well?

3 A. We do.

4 Q. And what are your overhead recommendations?

5 A. Drilling overhead would be 6,000 a month, and  
6 producing overhead would be 600 a month.

7 Q. And are these amounts equivalent to those charged by  
8 OGX and other operators for wells of this depth in this  
9 area?

10 A. They are.

11 Q. And, again, do you request that the rates be  
12 adjusted periodically as provided by the COPAS accounting  
13 procedure?

14 A. We do.

15 Q. Do you request the maximum cost plus 200 percent  
16 risk charge if an interest non-consents the well?

17 A. We do.

18 Q. And were the parties being pooled notified of this  
19 hearing?

20 A. They were.

21 Q. Is that reflected in Exhibit 5?

22 A. It is.

23 MR. BRUCE: And, Mr. Examiner, all parties did  
24 receive actual notice of this hearing.

25 Q. And what is Exhibit 6, Mr. Lang?

1           A.    Exhibit 6 are the offset operators for the  
2   Diamondback 22 State Com Number 1H.

3           Q.    And were the offsets -- some of the offsets are  
4   parties being pooled?

5           A.    Correct.

6           Q.    And were the offsets who are not being pooled, were  
7   they given notice of this application?

8           A.    They were.

9           Q.    And is that reflected in Exhibit 7?

10          A.    Yes, it is.

11          Q.    Were Exhibits 1 through 7 prepared by you or under  
12   your supervision?

13          A.    They were.

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

17          A.    It is.

18                MR. BRUCE:  Mr. Examiner, I move the admission of  
19   Exhibits 1 through 7.

20                EXAMINER BROOKS:  1 through 7 admitted.

21                (Exhibits 1 through 7 admitted.)

22                MR. BRUCE:  No further questions of the witness.

23                EXAMINER BROOKS:  Okay.  On the second affidavit of  
24   notice, the only person notified was OXY.  Were they the only  
25   offset, or some of the others notified?

1 THE WITNESS: Oh, OXY -- well Chesapeake is an  
2 offset, and OXY.

3 EXAMINER BROOKS: As well as an interest owner?

4 THE WITNESS: Yes.

5 EXAMINER BROOKS: And Chesapeake and OXY are the  
6 only offsetting operators? You didn't prepare a list of  
7 offsets.

8 MR. BRUCE: Yeah, Exhibit 6, and if you don't have  
9 one, I will give you mine.

10 EXAMINER BROOKS: Exhibit 6, I've got it. I'm  
11 sorry.

12 THE WITNESS: It listed all the offsets and it was  
13 either COG, OXY, Chesapeake, the parties being pooled.

14 EXAMINER BROOKS: That's taken care of. I'm sorry.  
15 And pooling Bone Spring only?

16 THE WITNESS: Yes, sir.

17 EXAMINER BROOKS: Mr. Warnell?

18 EXAMINER WARNELL: No questions.

19 EXAMINER BROOKS: Very good. That's all I have.

20 (Case 14638 taken under advisement per consolidated  
21 record.)

22 (Exhibit 10 admitted through consolidated record.)

23 I do hereby certify that the foregoing is  
24 a complete record of the proceedings in  
25 the Examiner hearing of Case No. 14638  
heard by me on 5-28-11

*David K. Brooks*, Examiner  
Oil Conservation Division

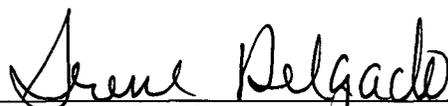
## REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY CERTIFY THAT ON April 28, 2011, 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 28th day of April 2011.

  
Irene Delgado, CCR 253  
Expires: 12-31-2011