

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: 14637

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

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A P P E A R A N C E S

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 04

EXHIBITS

EXHIBITS 1 THROUGH 7 ADMITTED 09

EXHIBIT 10 (AS ADMITTED THROUGH CONSOLIDATED RECORD) 10

1 EXAMINER BROOKS: At this time we will call Case
2 Number 14637, the application of OGX Resources LLC for
3 approval of a non-standard spacing unit and proration unit
4 and compulsory pooling, Eddy County, New Mexico.

5 Call for appearances.

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

8 EXAMINER BROOKS: Okay. The witnesses will need to
9 stand and identify themselves for the record.

10 MR. LANG: Garland Lang, L-a-n-g, OGX Resources.

11 MR. HARDIE: William Hardie, H-a-r-d-i-e, OGX
12 Resources Exploration.

13 EXAMINER BROOKS: Please swear the witnesses.

14 (Witnesses sworn.)

15 EXAMINER BROOKS: You may proceed. Call your first
16 witness, Mr. Bruce.

17 MR. BRUCE: Mr. Lang, first. Mr. Examiner, before I
18 begin, there are three OGX cases. They are all in the same
19 general area. Just because the land matters are different, I
20 will present the landman three times just to keep the record
21 straight. But I was intending to present Mr. Hardie, the
22 geologist, one time because his exhibits cover all of the
23 wells, if that's acceptable.

24 MR. BROOKS: Okay. I guess what we need to do in
25 that situation is compare -- is prepare a -- well, let's go

1 through the land matters on each case, and then we'll do a
2 consolidated record for the purpose of presenting the
3 geologist's testimony. So this will be the land record, and
4 this relates to 14637 only.

5 MR. BRUCE: Correct.

6 GARLAND LANG

7 (Having been sworn, testified as follows:)

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Will you please state your name and city of
11 residence for the record?

12 A. Garland Lang, Midland, Texas.

13 Q. Who do you work for, and in what capacity?

14 A. OGX Resources LLC, land manager.

15 Q. Have you previously testified before the Division?

16 A. I have.

17 Q. Were your credentials as an expert petroleum landman
18 accepted as a matter of record?

19 A. Yes, they were.

20 Q. And are you familiar with the land matters involved
21 in this case?

22 A. Yes, I am.

23 MR. BRUCE: Mr. Examiner, I tender Mr. Lang as an
24 expert petroleum landman.

25 EXAMINER BROOKS: So qualified.

1 Q. Mr. Lang, could you identify Exhibit 1 for the
2 Examiner and describe what OGX seeks in this case.

3 A. Exhibit 1 is a land plat showing in yellow our
4 proposed proration unit for our Copperhead 31 Fed Com Number
5 1 Well. We are seeking an order for 185.6-acre non-standard
6 oil spacing and proration unit in the Bone Spring formation
7 comprised of Lot 7 of Section 31 of 26-29, and the southeast
8 northeast of Section 30, and also the northeast northeast of
9 Section 31.

10 Q. And the east half southeast --

11 A. And the east half southeast of 30.

12 Q. Okay. What is Page 2 of the Exhibit 1?

13 A. That's a C-102 filed with the OCD, our proposed
14 proration unit.

15 Q. And the well will be a standard well location,
16 correct?

17 A. Correct.

18 Q. And what -- what zone are you seeking to force
19 pool?

20 A. The Bone Spring.

21 Q. What is the working interest ownership on the well?
22 And I refer you to Exhibit 2.

23 A. OGX Resources will have a 44.0682 working interest;
24 OXY USA, Inc., 47.8198; OGX Acreage Fund LP, 3.7516;
25 Chesapeake Exploration LLC, 4.3604.

1 Q. And what party do you seek to pool in this case?

2 A. Chesapeake Exploration LLC.

3 Q. What is Exhibit 3, Mr. Lang?

4 A. This is a certified letter that we mailed to
5 Chesapeake back on February the 9th, 2011, proposing the
6 well. And we did receive the green cards back.

7 Q. Have you had any discussions with Chesapeake?

8 A. We have, several times.

9 Q. And they just have not made a decision?

10 A. They just haven't made a decision.

11 Q. In your opinion, have you made a good-faith
12 effort?

13 A. We have.

14 MR. BRUCE: One thing, Mr. Examiner, I meant to
15 bring this up at the beginning. If you look at Exhibit 1
16 Page 2, there is 185.6 acres in the unit.

17 EXAMINER BROOKS: Yes, sir.

18 MR. BRUCE: Now when there was some discussion early
19 on about a -- including the entire east half east half of
20 Section 30 in the well unit, and that is how I filed the
21 application, so it will be 225.6 acres. And I have amended
22 the application and reset it, but since we had the other
23 cases set for hearing -- and I will given notice again to --
24 to Chesapeake and to the appropriate parties, but after this
25 hearing -- this hearing needs to be continued for four weeks

1 from today just to -- because of the amended application.

2 EXAMINER BROOKS: Okay.

3 EXAMINER WARNELL: On the C-102, dedicated acreage
4 says 189.5, and then you said 185.6.

5 MR. BRUCE: It is --

6 EXAMINER WARNELL: That's the second page of
7 Exhibit 1.

8 THE WITNESS: It should be 185.6.

9 MR. BRUCE: It should be 185.60 acres.

10 EXAMINER WARNELL: So the 189.5 is just --

11 Q. Is Chesapeake aware of the revised well unit?

12 A. Yes, they are.

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

16 A. Yes, I have.

17 Q. Would you identify Exhibit 4 and discuss the cost
18 for the proposed well?

19 A. Exhibit 4 is the authorization for expenditure for
20 Copperhead 31 Fed Com Number 1. Dry hole cost is \$1,964,730,
21 completion cost is \$4,874,660, for a total anticipated cost
22 of 68 -- 6,839,390.

23 Q. Are these costs in line with the cost of other
24 horizontal wells drilled to this depth in this area of New
25 Mexico?

1 A. They are.

2 Q. Do you request that OGX be appointed operator of the
3 well?

4 A. Yes, I do.

5 Q. And what is your recommendation as to the overhead
6 expenses?

7 A. 6,000 per month drilling, and 600 a month producing
8 overhead.

9 Q. And are these amounts fair and reasonable and
10 equivalent to those charged by other operators in this
11 area?

12 A. They are.

13 Q. Do you request that these rates be adjusted
14 periodically as provided by the COPAS accounting procedure?

15 A. I do.

16 Q. And was Chesapeake notified of this application?

17 A. Yes, they were.

18 Q. Is that reflected in Exhibit 5, the Affidavit of
19 Notice?

20 A. Yes, it was.

21 Q. What is Exhibit 6, Mr. Lang?

22 A. Exhibit 6 are the offset operators of -- offsetting
23 our Copperhead 31 Fed Com Number 1H.

24 Q. Was notice given to the offsets as reflected in
25 Exhibit 7, Affidavit of Notice?

1 A. Yes, they were.

2 Q. Were Exhibits 1 through 7 prepared by you or under
3 your supervision or compiled from company business records?

4 A. They were.

5 Q. And in your opinion, is the granting of this
6 application in the interest of conservation and the
7 prevention of waste?

8 A. It is.

9 Q. One final thing, if you turn back to Exhibit 1, the
10 land plat, Mr. Lang, the well unit does not include the
11 northeast -- the proposed well unit was changed, and it will
12 not include the northeast quarter/ northeast quarter of
13 Section 30. Who owns that acreage?

14 A. OGX Resources.

15 Q. You are not including anyone other than OGX
16 acreage?

17 A. That's right.

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

20 EXAMINER BROOKS: 1 through 7 are admitted.

21 (Exhibits 1 through 7 admitted.)

22 MR. BRUCE: No further questions of this witness at
23 this time.

24 EXAMINER BROOKS: Okay. Chesapeake has an undivided
25 interest in leases. Is that correct?

1 THE WITNESS: Yes, sir. They own an interest in the
2 northeast northeast of Section 31.

3 EXAMINER BROOKS: 31?

4 THE WITNESS: Yes, sir.

5 EXAMINER BROOKS: Okay. Pursuant to an oil and gas
6 lease?

7 THE WITNESS: Correct.

8 EXAMINER BROOKS: Okay. And the other, all the
9 interests are leased, I see, because your percentages add up
10 to 100 percent.

11 THE WITNESS: Yes, sir.

12 EXAMINER BROOKS: No unleased?

13 THE WITNESS: No unleased owners.

14 EXAMINER BROOKS: Are you asking for any pooling of
15 any Shale or zones or just the Bone Spring?

16 THE WITNESS: Just the Bone Spring.

17 EXAMINER BROOKS: Very good, okay. I believe that's
18 all my questions.

19 MR. BRUCE: Mr. Examiner, if we could move on to the
20 next case for purposes of the land testimony.

21 (Case 14637 continued to May 26, 2011, docket per
22 consolidated record.)

23 (Exhibit 10 admitted through consolidated record.)

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 14637
heard by me on 4-29-11

David K. Brooks
Oil Conservation Division

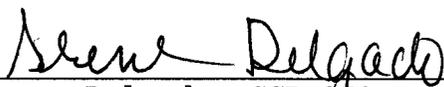
REPORTER'S CERTIFICATE

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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