

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:

Cases No. 14794, 14795

APPLICATION OF COG OPERATING, LLC, FOR A NON-STANDARD SPACING
AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW
MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

March 15, 2012

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Technical Examiner, and DAVID K. BROOKS, Legal Examiner, on March 15, 2012, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis, Drive, Room 102, Santa Fe, New Mexico.

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A P P E A R A N C E S

FOR THE APPLICANT:
MICHAEL FELDEWERT
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I N D E X

| | |
|--------------------------------|----|
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1 EXAMINER BROOKS: Okay. Call Case Number 14794,
2 application of COG Operating LLC for a non-standard spacing
3 and proration unit and compulsory pooling, Eddy County, New
4 Mexico.

5 MR. FELDEWERT: Please the Examiner, Mike Feldewert
6 with the Santa Fe office of Holland and Hart, appearing on
7 behalf of the applicant. And we would ask, Mr. Examiner,
8 that you call both, Case 14794 and 14795. We think they are
9 susceptible to common examination by the witnesses, and we'll
10 save some time.

11 EXAMINER JONES: So we called Case Number 14794?

12 EXAMINER BROOKS: We did. At this time we will call
13 Case Number 14795, application of COG Operating LLC for a
14 non-standard spacing and proration unit and compulsory
15 pooling, Eddy County, New Mexico.

16 MR. FELDEWERT: Mr. Examiner, Michael Feldewert on
17 behalf of the applicant here, and we have two witnesses for
18 these consolidated cases.

19 EXAMINER BROOKS: Okay. Will the witnesses please
20 stand and identify themselves.

21 MR. JOHNSON: Sean Johnson.

22 MR. CLARK: Greg Clark, geologist.

23 (Witnesses sworn.)

24 EXAMINER BROOKS: You may proceed.

25 MR. FELDEWERT: Mr. Examiner, before I begin my

1 questions, I just want to alert the Division to the fact that
2 Case 14794, as you will see from the testimony, will be ready
3 for consideration at the end of the -- of the presentation
4 here today. With respect to 14795, which involves the
5 Falabella Well Number 4H, there are some notice issues that
6 we have cured. However, because of the additional notices
7 that we provided, the case will not be ready for submission
8 until the next examiner docket. So we would like to present
9 the testimony here today and ask that that particular case be
10 stayed then until the next examiner docket, March 26, I
11 believe it is.

12 EXAMINER BROOKS: 29.

13 MR. FELDEWERT: 29, thank you. And at that time we
14 will recall and deal with the notice issues that we had
15 identified.

16 EXAMINER BROOKS: Okay.

17 SEAN JOHNSON

18 (Sworn, testified as follows:)

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Mr. Johnson, would you please state your full name
22 and identify by whom you are employed and in what capacity.

23 A. My name is Sean Johnson. I'm a landman for Concho
24 Resources.

25 Q. And have you previously testified before this

1 Division?

2 A. I have not.

3 Q. Would you briefly review your educational
4 background, please?

5 A. Yes. I graduated from Texas Tech University in the
6 spring of 2009 with my bachelor's of business administration
7 in energy commerce, petroleum land management.

8 Q. When you got out of school then, what did you do?
9 What's your work history?

10 A. As soon as I graduated in the spring of 2009, I was
11 employed by ConocoPhillips where I worked the Bakken Shale
12 for two and a half years, and then started with Concho in
13 August of 2011.

14 Q. Since you started your work with Concho, have your
15 areas of responsibility included the Permian Basin of New
16 Mexico?

17 A. Yes, they have.

18 Q. Are you a member of any professional
19 organizations?

20 A. Yes.

21 Q. Could you identify those, please?

22 A. The AAPL and the PBLA, Permian Basin Landman
23 Association.

24 Q. How long have you been a member of those two
25 organizations?

1 A. A little over two years.

2 Q. Have you had the opportunity to testify as an expert
3 witness in petroleum land matters in any other state?

4 A. Yes, I have. I have been admitted with the NDIC,
5 the North Dakota Industrial Commission, and the Montana Board
6 of Oil and Gas.

7 Q. Are you familiar with the application that's been
8 filed by Concho in these two consolidated cases?

9 A. Yes.

10 Q. Are you familiar with the status of the land that
11 are subject of these cases?

12 A. I am.

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

15 EXAMINER BROOKS: He is so qualified.

16 Q. Mr. Johnson, turn to what's been marked as Concho
17 Exhibit Number 1 in the package and identify this particular
18 exhibit and then briefly explain to the Examiners what Concho
19 seeks in this application.

20 A. Exhibit 1 is just a land plat of our Falabella 31 1H
21 and 4H located in Section 31, Township 18 South, 26 -- Range
22 26 East, where Concho is seeking approval for our
23 non-standard spacing unit and also a forced pooling order for
24 the Glorieta-Yeso interest owners within the proposed
25 non-standard spacing units.

1 Q. Now, with respect to Case 14794 involving the --
2 that involves the Falabella 31 Number 1H, correct?

3 A. That is correct.

4 Q. What non-standard spacing unit do you seek for that
5 particular well?

6 A. We are seeking the west half of the west half of
7 Section 31.

8 Q. And then do you seek to pool all the mineral
9 interests in the Glorieta-Yeso formation underlying that?

10 A. Yes, we do.

11 EXAMINER BROOKS: West half west half of the 1H,
12 right?

13 MR. FELDEWERT: Correct.

14 EXAMINER BROOKS: And east half east half of the
15 4H?

16 MR. FELDEWERT: Correct, Mr. Examiner.

17 EXAMINER BROOKS: Go ahead.

18 Q. With respect to the east half east half of the
19 non-standard spacing unit, do you again seek pooling of all
20 the interest owners in the Glorieta-Yeso Formation underlying
21 that spacing unit?

22 A. Yes, we do.

23 Q. Now, is Section 31 all fee lands?

24 A. Section 31 is all fee lands.

25 Q. And what's the significance of the yellow marking on

1 there?

2 A. The yellow marking just indicates Concho's leasehold
3 acreage.

4 Q. Okay. And with respect to the completed interval
5 for each of these two wells, are they -- will they comply
6 with the setback requirements under the new horizontal well
7 rule?

8 A. Yes, they will.

9 Q. Have you been able to identify the interest owners
10 in Section 31?

11 A. Yes.

12 Q. We turn to what's been marked as Concho's Exhibit
13 Number 2A and 2B, which are under the Tab 2 in the package.
14 Would you just briefly walk through this exhibit, please?

15 A. Yeah. Exhibit 2A is just our proposed, non-standard
16 spacing unit for the Falabella 31 1H located in the west half
17 of the west half of Section 31, 18-26. And then if you flip
18 over to 2, 2B --

19 Q. Actually --

20 A. That still --

21 Q. -- that's still considered part of 2A.

22 A. Yes.

23 Q. So that would be the second Page of 2A?

24 A. That's just a breakdown of the west half of the west
25 half of our non-proposed spacing unit for all the interest

1 owners on a tract level basis. And at the bottom of that
2 page you will see a unit recap of the working interest within
3 that spacing unit.

4 Q. Okay. Now, let's stop right here a minute. With
5 respect to this listing of interest owners, how many of these
6 interest owners remain uncommitted to your proposed
7 horizontal well?

8 A. Two. That would be OXY Well 1 and Tex Zia
9 Properties.

10 Q. And the remaining interest owners shown on here have
11 at least expressed to you that they are going to participate
12 in the well?

13 A. Yes, they have.

14 Q. Okay. And with respect to continuing through this
15 exhibit, the next page begins Exhibit Number 2B, does that
16 similarly depict now your east half east half non-standard
17 unit for the 4H?

18 A. Yes, that's correct.

19 Q. And if we go to the next page, what does that
20 depict?

21 A. That depicts the east half east half of Falabella 31
22 4H, just a breakdown showing there is seven tracts within
23 that proposed non-standard spacing unit. And on the second
24 page of that is just a breakdown of the interest on a tract-
25 level basis. And then, as before, at the bottom there is a

1 unit recap just showing the working interest of all parties
2 within the proposed spacing unit.

3 Q. I will ask the flip side this time. With respect to
4 the listing at the last page of Exhibit Number 2, how many of
5 the interest owners are committed to your well?

6 A. Including ourself, there will be three, Marshall &
7 Winston, and Lonesome Oil.

8 Q. What's the status with respect to Abo, Myco and
9 Sharbro?

10 A. Excuse me. Abo and Myco have also expressed that
11 they will participate.

12 Q. Okay. And so with respect to the pooling
13 application today, we have OXY, correct?

14 A. Correct.

15 Q. Sharbro --

16 A. Correct.

17 Q. -- at this point? And then you also list there some
18 acreage as open.

19 A. That's correct.

20 Q. All right. Have you been able to identify the
21 parties who hold that, what's now depicted as open acreage on
22 the last page of 2, Exhibit 2?

23 A. Yes. We have been able to identify the parties.

24 Q. And have you been able to then propose a well to
25 those parties as well as the other parties that are listed?

1 A. Yes. We have sent well proposals to the parties
2 indicated of the acreage.

3 Q. Okay. Let's then turn to what's been marked as COG
4 Exhibit 3A and 3B, and, again, 3A would involve the Falabella
5 Well Number 1H. And Exhibit 3B under Tab 3 would involve the
6 Falabella Fee Number 4H?

7 A. Correct.

8 Q. What do these two exhibits depict?

9 A. The first is 3A. The first page is our well
10 proposal letter that we had sent out to parties indicating
11 our proposed operations, and then the second page to that is
12 just our AFE.

13 Q. Is that the AFE that went out --

14 A. That is the AFE that went out to the parties.

15 Q. Went out when you proposed --

16 A. When we initially proposed the well back in
17 November.

18 Q. Make sure you let me finish my question before you
19 start your answer.

20 A. Gotcha.

21 Q. You then, likewise under 3B, provide a sample well
22 proposal letter that went out to the interest owners in
23 November 2011, correct?

24 A. Correct.

25 Q. And it has again attached to it the AFE that went

1 back out in November 2011?

2 A. That's correct.

3 Q. All right. Now, since -- these went out in November
4 of 2011 -- since that time, has there been efforts to reach
5 an agreement with all of the interest owners involved in
6 these two non-standard units?

7 A. Yes, sir, there has.

8 Q. Throughout that period of time, was the company also
9 engaged in a dispute with our friends at Cimarex about how to
10 develop this particular acreage?

11 A. Yes, we were.

12 Q. And that particular issue has been resolved,
13 correct?

14 A. It has been resolved, that's correct.

15 Q. And now we are proceeding forward with the pooling
16 application?

17 A. That's correct.

18 Q. All right. Has the -- had the costs and expenses
19 associated with the drilling of these two wells increased
20 since your AFE went out, first went out in November 2011?

21 A. Yes, they have.

22 Q. And is Exhibit Number 4, does this provide an
23 updated AFE for both the 1H on the first page and then the 4H
24 on the second page?

25 A. Yes, it does.

1 Q. And what's the date on these particular AFEs?

2 A. The date on these they were prepared was February
3 15, 2012.

4 Q. And do these, the costs reflected on Exhibit Number
5 4, are these commensurate with the cost that Concho has
6 incurred for drilling similar horizontal wells in this
7 area?

8 A. Yes, they are.

9 Q. Did Concho estimate the overheads and administrative
10 costs while drilling this well and also while producing if
11 you are successful?

12 A. Yes, we have.

13 Q. What are those costs?

14 A. 5,500 while drilling, and then 550 producing.

15 Q. And again, are these costs commensurate with what
16 Concho or other operators in this area charge for similar
17 wells?

18 A. Yes.

19 Q. And as the applicant, do you request that these
20 figures be incorporated into the order from this hearing and
21 that they be adjusted in accordance with the COPAS accounting
22 procedures?

23 A. Yes, we do.

24 Q. Does Concho similarly request that the Division
25 impose the 200 percent risk charge allowed by rule for those

1 who do not voluntarily come into this well?

2 A. Yes, we do.

3 Q. Let's turn now briefly to the non-standard spacing
4 units. First off, has Concho brought a geologist here to
5 provide technical testimony in support of these non-standard
6 units?

7 A. Yes, we have.

8 Q. Was Concho able to identify the leased mineral
9 interest in the 40-acre tracts that surround the proposed
10 non-standard spacing units?

11 A. Yes, we were.

12 Q. Did you include these known lease mineral interest
13 owners in providing notice of this hearing?

14 A. Yes, we did.

15 Q. If we then turn to what's been marked as Concho
16 Exhibit 5A, and under Tab 5, is that the -- that's an
17 affidavit with the notice letters associated with the
18 Falabella 1H Well on the west half of the west half?

19 A. Yes, that's correct.

20 Q. And that includes then on the second page following
21 that letter is the notice list for both the parties you seek
22 to pool as well as the offsetting lessee, correct?

23 A. Correct.

24 Q. All right. And then if we continue through to
25 what's been marked here as under Tab 5B, does that affidavit

1 relate to the Falabella 4H well?

2 A. Yes, it does.

3 Q. Now, if we page through this particular Exhibit 5B,
4 starting on Page 1 and continued through, I see there are a
5 series of notice letters that went out to the affected
6 interest owners, correct?

7 A. That's correct.

8 Q. And, in particular, there is a more recent letter
9 that went out in March of 2012, which, at your direction,
10 provided notice of a March 29 hearing?

11 A. That is correct.

12 Q. All right. Would you just explain to the Examiners
13 the reason that there were additional notice letters for a
14 hearing that went out subsequent to the original notice
15 letter?

16 A. Yes. When we initially proposed the well back in
17 November 2011, we proposed a well off of current ownership at
18 that time. Since then we have had the ownership updated a
19 week before the hearing, and there were additional parties
20 that were identified that didn't initially get notice, so
21 that's why we sent out notice to these parties.

22 Q. And so you request then that Case 14795, at the
23 close of this proceeding here today, be continued to March 29
24 to allow time for timely notice to this smaller group of
25 interest owners?

1 A. Yes, we do.

2 Q. But with respect to 14794, that case is ripe for
3 decision; everyone has been notified?

4 A. That is correct.

5 Q. Okay. Finally, Mr. Johnson, if you turn to what's
6 been marked as Exhibit Number 6A and 6B under Tab 6, is this
7 an affidavit of publication of this hearing in the Artesia
8 Daily Press for both of these applications?

9 A. Yes, it is.

10 Q. Were Exhibits 1 through 6B prepared by you or
11 compiled under your direction or supervision?

12 A. Yes, they were.

13 MR. FELDEWERT: Mr. Examiner, at this time I move
14 the admission into evidence of Concho Exhibits 1 through 6B.

15 EXAMINER BROOKS: 1 through 6B are admitted.

16 (Exhibits 1 through 6B admitted.)

17 MR. FELDEWERT: That concludes our presentation for
18 this witness.

19 EXAMINER BROOKS: In the -- it's in the Number 4H
20 that you had the open interest, right?

21 THE WITNESS: That's correct.

22 EXAMINER BROOKS: And you have identified all of the
23 owners of that?

24 THE WITNESS: We have identified all the current
25 owners.

1 EXAMINER BROOKS: Are those all unleased.

2 THE WITNESS: They are all unleased as of today.

3 EXAMINER BROOKS: In the Number 1H, you have only
4 the one unleased interest, correct?

5 THE WITNESS: That is correct. Tek Zia
6 properties.

7 EXAMINER BROOKS: And the Number 4H, the open
8 interest is all -- is unleased, but all the rest of these are
9 leased interests?

10 THE WITNESS: Marshall and Winston, they are
11 unleased as to their minerals. Lonesome Oil is unleased as
12 to their minerals, but they have indicated through
13 correspondence through e-mail that they will either
14 participate or lease their interest to us.

15 EXAMINER BROOKS: But they have not done so as of
16 now?

17 THE WITNESS: As of today, nothing is in place, but
18 like I said, there are e-mails that we have in place that
19 provided that.

20 EXAMINER BROOKS: Okay. Now, you're -- you're only
21 asking to pool or form a unit in the Glorieta-Yeso --
22 Glorieta and Yeso Formations. Is that right?

23 THE WITNESS: That is correct.

24 EXAMINER BROOKS: And is this an established
25 Glorieta-Yeso pool?

1 THE WITNESS: Yes, it is.

2 EXAMINER BROOKS: And what is that -- what pool is
3 that?

4 THE WITNESS: Should be --

5 EXAMINER BROOKS: Do you know?

6 THE WITNESS: Can you ask that again, please?

7 EXAMINER BROOKS: What pool is this in?

8 THE WITNESS: It should be the -- it should be the
9 Glorieta-Yeso.

10 MR. FELDEWERT: I'm going to see if it's in our
11 application because I don't know that off the top of my head.

12 EXAMINER BROOKS: Well, you have a caption here,
13 Penasco Draw, but I don't believe there is a Penasco Draw
14 pool in the Glorieta-Yeso. There is in some other --

15 MR. FELDEWERT: Mr. Examiner, obviously we don't
16 know off the top of our heads. I can make sure, number one,
17 there is an established pool, and two, identify the point.

18 EXAMINER BROOKS: I appreciate that. And, let's
19 see, did you comment on your overhead charge?

20 THE WITNESS: Yes. Yes, sir, we did.

21 EXAMINER BROOKS: What was that?

22 THE WITNESS: 55 hundred for drilling and 550
23 producing.

24 EXAMINER BROOKS: 65 hundred?

25 THE WITNESS: No, sir. 55 while drilling and 550

1 producing.

2 EXAMINER BROOKS: 55?

3 THE WITNESS: Yes, sir.

4 EXAMINER BROOKS: 55, 550. Well, you have a
5 publication notice. Are there are some of these people you
6 didn't have addresses for?

7 THE WITNESS: Initially, that is correct.

8 EXAMINER BROOKS: But you've located everybody now?

9 THE WITNESS: We have located all of the -- the
10 interest unleased in the 4H and have sent current well
11 proposals to them.

12 EXAMINER BROOKS: Right.

13 THE WITNESS: And lease offers, that's correct.

14 EXAMINER BROOKS: And you had already located
15 everybody in the Number 1H?

16 THE WITNESS: Yes, sir.

17 EXAMINER BROOKS: Okay. I think that's all I have.
18 Mr. Jones?

19 EXAMINER JONES: I just never heard of Sea City,
20 Iowa.

21 THE WITNESS: That was a -- that was a funny case.
22 I actually had called to try to -- we found a phone number
23 and ended up calling a hair salon, so --

24 EXAMINER JONES: It wasn't a place?

25 THE WITNESS: It was a place, but no contact with

1 the party that was involved, so --

2 EXAMINER JONES: The AFEs always said 5,000 for
3 drilling completion and overhead, but really you are
4 proposing 5,500. Is that right?

5 THE WITNESS: Yeah, that's correct.

6 EXAMINER BROOKS: Okay. That's all I have.

7 MR. FELDEWERT: I'm just flipping through the file
8 here real quick to see if there is any identification of the
9 pool notice that involved this particular section or any of
10 the prehearing statements that have been filed in this
11 matter, and I don't see one, Mr. Examiner, so we'll have to
12 run that down for you.

13 EXAMINER BROOKS: Okay. Thank you.

14 MR. FELDEWERT: We will call our next witness.

15 GREG CLARK

16 (Sworn, testified as follows:)

17 DIRECT EXAMINATION

18 BY MR. FELDEWERT:

19 Q. Could you please state your name for the record and
20 identify for the Examiner by whom you are employed and in
21 what capacity?

22 A. Greg Clark. I'm employed by Concho as a senior
23 geologist.

24 Q. And have you previously testified before this
25 Division?

1 A. No.

2 Q. Okay. Why don't you run through your educational
3 background.

4 A. I have a bachelor of science in geology from New
5 Mexico State University, May of 1994.

6 Q. You will be watching the game this evening?

7 A. You got that right.

8 Q. What then has been your work history since you
9 graduated from New Mexico State in 1994?

10 A. I started in 1995 with Meridian Oil slash Burlington
11 Resources in Farmington, New Mexico. I worked there until
12 January of 99 where I was hired by Coastal Oil and Gas in
13 Houston, Texas, who was acquired by El Paso in 2001, and was
14 transferred to Denver in 2009 with El Paso and subsequently
15 have hired on with Concho as of May 2011.

16 Q. Since commencing your employment with Concho in May
17 of 2011, have your responsibilities included the Permian
18 Basin of New Mexico?

19 A. Yes.

20 Q. And are you a member of any professional
21 organization?

22 A. Yes.

23 Q. And what organization is that?

24 A. AAPG.

25 Q. That's the American Association of Petroleum

1 Geologists?

2 A. Correct.

3 Q. How long have you been a member of that particular
4 organization?

5 A. Over ten years.

6 Q. Are you familiar with the application that's been
7 filed by Concho in this case?

8 A. Yes.

9 Q. Did you conduct a study of the lands that are the
10 subject of this application?

11 A. Yes.

12 MR. FELDEWERT: Mr. Examiner, I would tender
13 Mr. Clark as an expert witness in petroleum geology.

14 EXAMINER BROOKS: He is so qualified.

15 Q. Would you then turn, Mr. Clark, to what's been
16 marked as COG Exhibit Number 7 in the package?

17 A. Yes.

18 Q. And identify that for the Examiner and then walk
19 through the important points.

20 A. Yes. This is a regional structure map based on the
21 top of the Paddock. What this represents in the structural
22 sense is you will see a structural dip that dips to the south
23 and to the east, regionally. In yellow is the Concho
24 acreage, leasehold acreage that encompasses the two wells in
25 question today, the Falabella 31 Fee 1 and 4H.

1 These wells are oriented in a north-south direction,
2 which is the bottom hole location being in the south end of
3 the Section 31 Line. This map also displays offset regional
4 producing areas. As you will see in the Dayton area, the
5 Penasco Draw, Dagger Draw and Cemetery areas in which we feel
6 are correlative and representative of where we are proposing
7 these two wells. You will see in red shows Paddock producers
8 and the blue shows Blinebry producers.

9 Q. If I see a circle that's half blue and half red,
10 what does that mean?

11 A. It means they are commingled and/or producing
12 separately from those intervals in the same well.

13 Q. What's the general nature of the nearby Penasco Draw
14 and Dayton, what type of development have we seen in those
15 areas?

16 A. Almost exclusively vertical in nature.

17 Q. And are these older fields?

18 A. These are older fields, and some newer wells. As we
19 all know, they can be dependent on the price of commodities
20 when they are drilled.

21 Q. In your opinion, is the structure here consistent
22 throughout Section 31?

23 A. It is. I do not see any geological impediments that
24 would separate us from being analogous to the offset fields
25 that are dictated in blue.

1 Q. Within the proposed spacing units, you don't observe
2 any faulting or pinchouts or anything like that?

3 A. That is correct. I do not.

4 Q. Okay. Would you then -- is there anything else
5 about this particular exhibit?

6 A. No, sir.

7 Q. Let's then turn to what's been marked as Concho
8 Exhibit Number 8. Would you identify that, please, for the
9 Examiner?

10 A. Yeah. This is the same map as before with the
11 structure taken off and showing a regional cross-section that
12 you will see in the next display that is oriented roughly
13 from the south to the north from A to A Prime, going from
14 Cemetery Field to -- close to the Dagger Draw Field and up to
15 the Dayton Field. It's going to be representative of the
16 stratigraphy and formations that we feel are analogous to the
17 area in which we are proposing the two wells in question.

18 Q. Okay. Then if we keep our finger on this exhibit
19 and move over to what's been marked as Exhibit Number 9,
20 would you identify that and then just orient us how it
21 relates to the wells shown on Exhibit Number 8?

22 A. Sure. Exhibit Number 9, if you look to the left,
23 that relates to A on Exhibit Number 8, which is to the south,
24 so the cross-section goes from left to right, from south to
25 north on -- on the Number 8.

1 Q. Okay. And then what's the significance of the
2 various colors here?

3 A. First of all, this -- this cross-section, as stated
4 before, goes from the south to the north, from A to A Prime
5 as depicted on the other display. And it is a stratigraphic
6 cross-section, which means it is flattened on the Paddock,
7 that is the Datum line, so structure has been taken out so we
8 can get a good correlation and reference to the stratigraphic
9 continuity between these wells as it relates to where we are
10 wanting to drill in terms of being analogous in -- in
11 geologic nature.

12 So as we go from the south to the north, you will
13 see that there is not any significant thickening or thinning
14 between the stratigraphic intervals. We feel that, in a
15 geologic sense, it is rather continuous in mapping nature,
16 and also we have provided wells in the cross-section, Number
17 2 from the left, Number 4 from the left, and the last one on
18 the right, and which have been completed in the Paddock
19 and/or the Glorieta and the Paddock and the field is
20 representative of where we want to drill these wells.

21 Now, you will see three wells, the well on the left,
22 the third from the left, and the second from the right that
23 do not have perforations in the said interval, but we
24 believe, to be prospective, that they were drilled as Morrow
25 wells and have not been recompleted back to the Paddock and

1 Glorieta as that is non-commingling.

2 Q. Does this particular Exhibit Number 9 then also
3 identify your proposed target area for horizontal wells?

4 A. It does.

5 Q. Both for the Falabella Number 1H and the 4H?

6 A. Yes, it does. If you look at the arrow underneath
7 the Datum line on the left, on the well on the left, this is
8 the interval in which we are wanting to target in the
9 Falabella 1H and 4H, and you will see on the log of the well
10 that is the second from the left that shows the interval in
11 which we want to target and stay in throughout the whole
12 horizontal of both of those wells.

13 Q. In your opinion, Mr. Clark, is the target zone here
14 consistent across the area?

15 A. Yes.

16 Q. And do you observe, in your opinion, any geologic
17 impediments to developing this area using the full section
18 horizontal wells?

19 A. No, I do not.

20 Q. In your opinion, is this an area that can be
21 efficiently and economically developed by horizontal wells?

22 A. Yes.

23 Q. And based on your study and analysis, would you
24 expect that the proposed project area for each of these wells
25 will contribute equally to the well's production?

1 A. Yes.

2 Q. In your opinion, will the granting of this
3 application -- of both of these applications be in the best
4 interest of conservation, the prevention of waste, and the
5 protection of correlative rights?

6 A. Yes.

7 Q. Were COG Exhibits 7 through 9 prepared by you or
8 compiled under your direction and supervision?

9 A. Yes.

10 MR. FELDEWERT: Mr. Examiner, I move the admission
11 of COG Exhibits 7 through 9.

12 EXAMINER BROOKS: 7 through 9 are admitted.

13 (Exhibits 7 through 9 admitted.)

14 MR. FELDEWERT: And that concludes our presentation.

15 EXAMINER BROOKS: Very good. Thank you. Mr. Jones?

16 EXAMINER JONES: Do you work with Mr. Reyes?

17 THE WITNESS: Yes.

18 EXAMINER JONES: You guys are sort of a team, all
19 one big effort here.

20 THE WITNESS: Yes, sir.

21 EXAMINER BROOKS: Did you work with John Caldwell at
22 Burlington in Farmington?

23 THE WITNESS: Not directly, but I knew of him,
24 yes.

25 EXAMINER JONES: This structure map is above sea

1 level. Is that correct?

2 THE WITNESS: That's right. The Paddock is above
3 sea level.

4 EXAMINER JONES: So it is above -- so the strike is
5 to the northeast-southwest and the dip is basically --

6 THE WITNESS: Perpendicular to that, yes, sir.

7 EXAMINER JONES: And did that have something to do
8 with your thinking of north-south wells? In other words,
9 your production engineer have any say in it?

10 THE WITNESS: Absolutely. We work closely with our
11 production engineers. They are not reservoir engineers, and,
12 as a team, we feel that SH max runs in a northwest-southeast
13 direction, so any well oblique to that is going to give us
14 the best performance in terms of frac orientation.

15 EXAMINER JONES: Okay. And do you see any oil-water
16 contact in the Paddock in this area?

17 THE WITNESS: I have not.

18 EXAMINER JONES: Okay. So pretty much solution gas
19 drive type of reservoir?

20 THE WITNESS: Yes, sir.

21 EXAMINER JONES: And it's kind of dirty on the gamma
22 ray in that section you are going to drill. What's going on
23 with that?

24 THE WITNESS: Well, if you look closely -- and I do
25 see what you're calling dirty, but if you look at the arrow,

1 if you look right above that, if we are looking at the well
2 on the very left of the cross-section, it's what I guess you
3 could call pretty dirty there, and as you come down to where
4 the arrow is, it cleans up pretty nicely to where we think it
5 is a dolomite instead of a limestone, and actually we are
6 pretty sure it's a dolomite instead of a limestone. Plus
7 we've seen mudlog response and plus our waterline
8 petrophysics tell us that this is the interval we want to
9 land in, so we are fairly confident this is the place to
10 be.

11 EXAMINER JONES: Your waterline pressure take some
12 RFT?

13 THE WITNESS: I do not know of any RFT data out
14 here. Actually it's probably a little too tight
15 formation-wise to get a good response on the RFT, in my
16 professional opinion. I have taken many RFTs, and we are
17 dealing with maybe 4 percent porosity out here, and that's
18 usually the limit at which those tools can effectively take a
19 pressure, unless you want to spend six, seven hours to get
20 one pressure and take the chance of getting the tool stuck,
21 so it's just not that effective in this type of rock.

22 EXAMINER JONES: You want to limit the well length
23 to a mile. Is that just for convention?

24 THE WITNESS: No. We are limiting it to the
25 setbacks of the section line in terms of where we end the

1 well, and where we are placing the well in terms of surface
2 hole location is as close to the section line to where we can
3 put a pack.

4 EXAMINER JONES: But if you were a landman, what
5 would you do as a geologist? Would you drill further?

6 THE WITNESS: I would. I would, you know, to be
7 honest. I would try to get as much length as we could in
8 this reservoir. I feel that that further enhances the
9 conclusions that we talked about before in terms of
10 efficiency and being economical and on the conservation side
11 of things, on the land issue side of things that we're --

12 EXAMINER JONES: Your frac engineer might want to
13 limit it to a manageable number of stages?

14 THE WITNESS: He might. He might, yes, sir.

15 EXAMINER JONES: Why do you want to drill a well on
16 either side of this section instead of just -- are you going
17 to propose wells in this area, also, or are you going to wait
18 and see what happens?

19 THE WITNESS: Eventually what we would like to do is
20 space these wells out in which we feel like we can get a good
21 indication of reservoir performance. I'm not a reservoir
22 engineer, so that's about as much as I can speak to that,
23 but, in my opinion, I would save the in fields for later. We
24 would rather better define the field in terms of the economic
25 producability and then start coming in and filling at that

1 point.

2 EXAMINER JONES: But once you fill these north-south
3 on either end, you are pretty much committed to that on the
4 middle, if it's prospective?

5 THE WITNESS: That is correct.

6 EXAMINER JONES: I don't have any more questions.

7 EXAMINER BROOKS: Okay. I don't have any questions
8 for this witness.

9 MR. FELDEWERT: Mr. Examiner, that concludes our
10 presentation, and we ask that Case 14794 be taken under
11 advisement, and then ask that Case 14795 involving the 4H be
12 continued until March 29.

13 EXAMINER BROOKS: Very good. Case Number 14794 will
14 be taken under advisement. Case Number 14795 will be
15 continued to March 29. You didn't go into it separately, Mr.
16 Feldewert. Did you notice all the offsets on these?

17 MR. FELDEWERT: Yes. Yes. I think we got the
18 testimony, and that we made sure to include all the
19 offsets.

20 EXAMINER BROOKS: Very good. I thought you had, but
21 I wasn't sure.

22 * * * * *

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 14794-95
25 heard by me on 3-15-12

David K. Broome, Examiner
Oil Conservation Division


REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY CERTIFY THAT ON March 15, 2012, 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 _____ day of March 2012.


Irene Delgado, CCR 253
Expires: 12-31-2012