

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:

APPLICATION OF CONTINENTAL RESOURCES, CASE NO. 15904
INC. FOR A NONSTANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 PHILLIP GOETZE, TECHNICAL EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Phillip Goetze, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, December
21, 2017, 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: Mary C. Hankins, CCR, RPR
 New Mexico CCR #20
 Paul Baca Professional Court Reporters
 500 4th Street, Northwest, Suite 105
 Albuquerque, New Mexico 87102
 (505) 843-9241

APPEARANCES

FOR APPLICANT CONTINENTAL RESOURCES, INC.:

GARY W. LARSON, ESQ.
HINKLE SHANOR, LLP
218 Montezuma Avenue
Santa Fe, New Mexico 87501
(505) 982-4554
glarson@hinklelawfirm.com

FOR MRC PERMIAN COMPANY:

JORDAN L. KESSLER, ESQ.
HOLLAND & HART, LLP
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
jlkessler@hollandhart.com

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1 (10:32 a.m.)

2 EXAMINER DAWSON: So at this point, we'll
3 move on to number three on the list, which is Case
4 Number 15904. It's application of Continental
5 Resources, Incorporated for a nonstandard oil spacing
6 and proration unit and compulsory pooling, Lea County,
7 New Mexico.

8 Call for appearances, please.

9 MR. LARSON: Good morning, Mr. Examiner.
10 Gary Larson, of the Santa Fe office of Hinkle Shanor,
11 for Continental Resources. I have two witnesses.

12 EXAMINER DAWSON: Okay. Can your two
13 witnesses please stand and be sworn in by the court
14 reporter?

15 Ms. Kessler, go ahead.

16 MS. KESSLER: Mr. Examiners, Jordan
17 Kessler, from the Santa Fe office of Holland & Hart, on
18 behalf of MRC Permian. No witnesses today.

19 EXAMINER DAWSON: So go ahead and we'll
20 swear in your witnesses, Mr. Larson.

21 (Ms. Cozyris and Mr. Haiduk sworn.)

22 EXAMINER DAWSON: You can call your first
23 witness, Mr. Larson.

24 When you're ready, Mr. Larson.

25 MR. LARSON: Thank you, Mr. Examiner.

1 EMILY J. COZYRIS,
2 after having been first duly sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. LARSON:

6 Q. Good morning, Ms. Cozyris. Would you state
7 your name for the record?

8 A. Emily Cozyris.

9 Q. Where do you reside?

10 A. Edmond, Oklahoma.

11 Q. And by whom are you employed and in what
12 capacity?

13 A. I am a senior landman at Continental Resources,
14 Incorporated.

15 Q. And are you familiar with the land matters that
16 pertain to Continental's application?

17 A. Yes.

18 Q. And is your focus as a senior landman on new
19 ventures, including Continental's assets in New Mexico?

20 A. Yes.

21 Q. Have you previously testified at a Division
22 hearing?

23 A. No.

24 Q. Given that, would you briefly summarize your
25 educational background and professional experience in

1 **the oil and gas industry?**

2 A. I graduated in 2005 from the University of
3 Oklahoma with a bachelor's in business administration.
4 I then worked for a large independent oil and gas
5 company for eight years, and I've since been with
6 Continental for four years.

7 MR. LARSON: Mr. Examiner, I tender
8 Ms. Cozyris as an expert petroleum landman.

9 EXAMINER DAWSON: Any objection?

10 MS. KESSLER: No objection.

11 EXAMINER DAWSON: Ms. Cozyris will be
12 admitted -- accepted as an expert petroleum landman at
13 this time.

14 Q. **(BY MR. LARSON) And as an initial opinion,**
15 **Ms. Cozyris, do you believe that Oklahoma will win the**
16 **national championship?**

17 A. I hope so.

18 (Laughter.)

19 Q. **Would you identify the document marked as**
20 **Exhibit Number 1?**

21 A. This is our C-102 showing the well location and
22 acreage dedication plat.

23 Q. **And is Exhibit 1 a true and correct copy of the**
24 **C-102 for the Reed State well?**

25 A. Yes.

1 Q. And the handwriting on the top there, is that
2 Mr. Kautz' handwriting?

3 A. Yes, it is.

4 Q. And after Continental filed its application,
5 did the Division request that Continental change the
6 well name that's identified in the application?

7 A. Yes. It requested that we remove the hyphens
8 from the name, so we changed the well name from the Reed
9 State 24 25 1H B to the Reed 24 25 B State 001H.

10 Q. And for the convenience of the court reporter,
11 I'll just refer to it as the Reed #1 well.

12 A. (Indicating.)

13 Q. And what formation is Continental seeking to
14 pool?

15 A. The Wolfcamp.

16 Q. Are there any depth exceptions in the Wolfcamp?

17 A. No.

18 Q. Is there an API number for this well?

19 A. Yes. It's 30-025-44245 [sic].

20 Q. And what pool is the proposed well produced
21 from?

22 A. The Townsend; Permo Upper Penn.

23 Q. And what is the number for that?

24 A. 59847.

25 Q. Would you identify the document marked as

1 **Exhibit 2?**

2 A. This is a plat showing the interest in the
3 project area. It is broken out by each owner in each
4 tract as a consolidated interest at the end.

5 Q. And did you prepare this document?

6 A. Yes.

7 Q. And does it identify all of the uncommitted
8 interests in the proposed project area at the time
9 Continental initially proposed the Reed #1 well?

10 A. Yes.

11 Q. Would you identify the document marked as
12 **Exhibit 3?**

13 A. This is a well-proposal letter sent to the
14 uncommitted owners within the project area, along with
15 the certified green cards showing mailing.

16 Q. And Exhibit A, does that list all of the
17 uncommitted interests at the time you proposed the
18 letter?

19 A. Yes.

20 Q. And did you personally prepare and sign these
21 well-proposal letters?

22 A. Yes, I did.

23 Q. And the letter was sent to each of the
24 interests identified in Exhibit 2; is that correct?

25 A. Yes.

1 Q. And they all received the letter?

2 A. Yes.

3 Q. And after you sent the well-proposal letters,
4 did you follow up with the interest owners who you
5 notified?

6 A. Yes, email and phone conversations with the
7 leasehold owners, including MRC and DGP Energy and 2323.
8 The lease offers were sent to the unleased owner
9 attempting to lease his interest.

10 Q. Were you able to reach an agreement with 2323
11 and DPG?

12 A. Yes. 2323 sent me an election that they would
13 participate in the well, but we're still negotiating the
14 JOA. MRC is still reviewing, and we have not had any
15 success leasing the mineral owner.

16 Q. And you recently met with -- excuse me --
17 representatives of MRC Permian?

18 A. Yes.

19 Q. And you intend to continue those discussions?

20 A. Yes.

21 Q. And in your opinion, has Continental made a
22 good-faith effort to obtain voluntarily joinders in the
23 Reed #1 well?

24 A. Yes.

25 Q. Directing your attention to the bottom of page

1 2 of Exhibit 2, as we sit here today, assuming that DGP
2 executes the JOA, is Continental seeking to pool the
3 interests of MRC Permian and Richard Yates, which total
4 14.9 percent of the acreage in the project area?

5 A. Yes.

6 Q. Would you next identify the document marked as
7 Exhibit 4?

8 A. This is a sample hearing-notice letter that was
9 sent to the uncommitted interests and the green cards
10 for mailing.

11 Q. And was the hearing-notice letter sent to each
12 of the uncommitted interests identified in Exhibit 2
13 under your direction and supervision?

14 A. Yes.

15 Q. Would you next identify the document marked as
16 Exhibit 5?

17 A. This is a map identifying the offset interest
18 owners adjacent to our project area.

19 Q. And did you create this exhibit?

20 A. Yes.

21 Q. It's quite a list of offsets, isn't it?

22 A. Yes. There are a lot of owners.

23 Q. Did Continental have good addresses for all the
24 offset interests identified?

25 A. No.

1 Q. And from your perspective, did Continental make
2 a good-faith effort to obtain good addresses?

3 A. Yes.

4 Q. Would you identify the document marked as
5 Exhibit 6?

6 A. This is a sample hearing-notice letter that was
7 sent to the offset interest owners.

8 Q. And was the hearing-notice letter sent to each
9 of the offset interests identified in Exhibit 5 under
10 your direction and supervision?

11 A. Yes.

12 Q. Continental published notice of today's
13 hearing?

14 A. Yes. Notice was published in the "Hobbs
15 News-Sun" on November 25th.

16 Q. And does the notice identify each of the
17 individuals and entities identified in Exhibits 2 and 5?

18 A. Yes.

19 Q. And would you identify the document marked as
20 Exhibit 7?

21 A. This is an Affidavit of Publication.

22 Q. And is it a true and correct copy of the "Hobbs
23 News-Sun" affidavit?

24 A. Yes.

25 Q. Would you identify the document marked as

1 **Exhibit 8?**

2 A. This is the completed -- this is the completed
3 well-costs proposal for the AFE -- the AFE for the well.

4 **Q. Is this the well proposal that you sent out**
5 **with your proposal letters?**

6 A. Yes.

7 **Q. And is it a true and correct copy of that AFE?**

8 A. Yes.

9 **Q. And what is the completed well costs indicated**
10 **on the AFE?**

11 A. \$12,313,506.

12 **Q. And do you have a recommendation for -- excuse**
13 **me -- the amounts Continental should be paid for**
14 **supervision and administrative expenses?**

15 A. Yes, \$7,500 for drilling and 750 a month while
16 the well is producing.

17 **Q. And do you also recommend that the overhead**
18 **rates be adjusted periodically pursuant to the COPAS**
19 **accounting procedure?**

20 A. Yes.

21 **Q. Is Continental also requesting a 200 percent**
22 **charge for the risk of drilling and completing the Reed**
23 **#1 well?**

24 A. Yes.

25 **Q. And in your opinion, will the granting of**

1 Continental's application avoid the drilling of
2 unnecessary wells, protect correlative rights and serve
3 the interest of conservation and the prevention of
4 waste?

5 A. Yes.

6 MR. LARSON: Mr. Examiners, I move the
7 admission of Exhibits 1 through 8.

8 EXAMINER DAWSON: Any objection?

9 MS. KESSLER: No objection.

10 EXAMINER DAWSON: At this point Exhibits 1
11 through 8 will be admitted to the record.

12 (Continental Resources, Inc. Exhibit
13 Numbers 1 through 8 are offered and
14 admitted into evidence.)

15 MR. LARSON: I will pass the witness.

16 EXAMINER DAWSON: Ms. Kessler?

17 MS. KESSLER: No questions.

18 EXAMINER DAWSON: Mr. Goetze?

19 EXAMINER GOETZE: No questions for this
20 witness.

21 EXAMINER DAWSON: Mr. Brooks?

22 EXAMINER BROOKS: No questions.

23 EXAMINER DAWSON: I have no questions.

24 Thank you very much.

25 THE WITNESS: Thank you.

1 You can call your second witness now,
2 Mr. Larson.

3 JOHN HAIDUK,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. LARSON:

8 **Q. Good morning, Mr. Haiduk.**

9 A. Good morning.

10 **Q. Would you state your full name for the record?**

11 A. John Haiduk.

12 **Q. And where do you reside?**

13 A. Edmond, Oklahoma.

14 **Q. And by whom are you employed and in what**
15 **capacity?**

16 A. Continental Resources, Incorporated. I'm the
17 geologic manager for the new ventures group, which
18 includes New Mexico.

19 **Q. And are you familiar with the geologic aspects**
20 **of the proposed Reed #1 well and the matters addressed**
21 **in Continental's application?**

22 A. Yes.

23 **Q. And you have previously testified at a Division**
24 **hearing; is that correct?**

25 A. Yes.

1 **Q. And were you qualified as an expert in**
2 **petroleum geology?**

3 A. Yes.

4 MR. LARSON: Mr. Examiner, I would tender
5 Mr. Haiduk as an expert petroleum geologist.

6 EXAMINER DAWSON: Any objections?

7 MS. KESSLER: No objection.

8 EXAMINER DAWSON: Mr. Haiduk will be
9 admitted as an expert petroleum geologist at this time.

10 **Q. (BY MR. LARSON) Mr. Haiduk, would you identify**
11 **the document marked as Exhibit 9?**

12 A. This is a color-coded production map. It
13 covers approximately 16 square miles. It shows the
14 location of the Reed #1 well in Sections 24 and 25,
15 including the surface- and bottom-hole locations at 15
16 south, 35 East. The color codes: The red are Wolfcamp
17 producers. The green are Strawn, and deeper-pooled
18 Paleozoics are in purple. And below each well is the
19 his formation code for -- their -- their codes for
20 producing formations out of each well.

21 **Q. Did you prepare this document?**

22 A. It was prepared under my guidance by a
23 geologist.

24 **Q. And will the completed interval of the Reed #1H**
25 **well comply with the Division setbacks?**

1 A. Yes.

2 **Q. Would you identify the document marked as**
3 **Exhibit 10?**

4 A. This is a Wolfcamp B structure map, 20-foot
5 contours. What it shows us is the vicinity of our
6 location. The structural dip is about 70 feet per mile
7 to the east, and the green dots are actually Wolfcamp
8 producers, which is the target in the Wolfcamp that we
9 have selected for this well.

10 **Q. Is there anything else that your structure map**
11 **told you in terms of your analysis of the prospects for**
12 **the well?**

13 A. Yes. It helped us determine where the optimal
14 place to drill is based on the data that we have, and we
15 do not want to cross any faults or any geologic
16 impediments that might inhibit our drilling efficiently
17 or completion efficiently.

18 **Q. I'll next ask you to identify the document**
19 **marked as Exhibit 11.**

20 A. This is just a simple cross-section location
21 map. We selected two wells to run our cross section
22 through, which is basically at the end of our wellbore.

23 **Q. And would it be fair to say this map is**
24 **intended to set the table for Exhibit 12, which is your**
25 **cross section?**

1 A. Yes, sir.

2 **Q. Would you identify Exhibit 12?**

3 A. It is cross section A to A prime. This
4 location was depicted on the previous Exhibit as a
5 stratigraphic cross section, which is hung on the top of
6 the Wolfcamp B. At the base of the logs, you can see
7 our pick on the Wolfcamp D, and basically it goes
8 between the Chesapeake Alice 13 1 well, which is located
9 in Section 13 and 15 South, 35 East, and the Arrington
10 Royal Stimulator #2 located in Section 31, 15 South, 36
11 East. You can see in green on the west side of the
12 Alice 13 1 well is our lateral interval, which we think
13 is the optimal interval to try in this particular area
14 to test the Wolfcamp B. It's approximately 200 feet.

15 **Q. And are there any faults or geologic**
16 **impediments in the targeted interval?**

17 A. We don't believe so, no.

18 **Q. And in your opinion, will the proposed Reed #1**
19 **well be productive on the entire line of the**
20 **completed --**

21 A. Yes.

22 **Q. And in your opinion, will that production be**
23 **reasonably uniform across the lateral?**

24 A. Yes.

25 **Q. And in your opinion, will the granting of**

1 Continental's application avoid the drilling of
2 unnecessary wells, protect correlative rights, serve the
3 interest of conservation and the prevention of waste?

4 A. Yes.

5 Q. And were Exhibits 10 through 12 prepared by
6 Continental's geology department under your direction
7 and supervision?

8 A. Yes.

9 MR. LARSON: With that, Mr. Examiner, I
10 move the admission of Exhibits 9 through 12.

11 EXAMINER DAWSON: Any objection?

12 MS. KESSLER: No objection.

13 EXAMINER DAWSON: At this point Exhibits 9
14 through 12 will be admitted to the record.

15 (Continental Resources, Inc. Exhibit
16 Numbers 9 through 12 are offered and
17 admitted into evidence.)

18 MR. LARSON: And I will pass the witness.

19 EXAMINER DAWSON: Ms. Kessler?

20 MS. KESSLER: No questions.

21 EXAMINER GOETZE: Just a few.

22 CROSS-EXAMINATION

23 BY EXAMINER GOETZE:

24 Q. Looking at the existing producers in the
25 Wolfcamp B, so all of these are primarily oil producers

1 **as being classified? No gas?**

2 A. Yes.

3 **Q. So you're not -- you're not fearful of having a**
4 **gas well up in your --**

5 A. No, we are not.

6 The three offset producers closest to
7 Section 25 of 15 South, 35 East produced 14,000 barrels
8 of oil and 24 million cubic feet of gas. In 15 South,
9 36 East, Section 20 -- excuse me -- 29, the well in the
10 southwest quarter produced 6,000 barrels of oil, no gas
11 reported. And the well in Section 31 of that same
12 township and range produced 30,000 barrels of oil and
13 124 million cubic feet of gas. And I would note,
14 geologically, these were completed in higher porosity at
15 the top of the B and the base of the A. So we do not
16 expect to have any gas. We expect about 1,500 GOR.

17 **Q. Very good.**

18 **And just out of curiosity, horizontal**
19 **Wolfcamps in this area, are there any close by, or are**
20 **you the only --**

21 A. There are two located on the map in Section
22 16 -- excuse me -- 17 and 21 of 15 South, 36 East.
23 Cimarex drilled some wells about eight to nine years
24 ago. They were located in the boundary between the A
25 and the B and after the higher porosity. They are short

1 laterals, and they were first-generation completions.
2 One of them was not even fracture stimulated. It was
3 only an acid stimulation. The results of these wells
4 were subeconomic.

5 **Q. Any ideas of how many stages you're**
6 **anticipating for stimulation?**

7 A. Somewhere in the order of 55 to 60, I believe.
8 We'll have about 200- and 210-foot stimulation
9 spacing frac --

10 **Q. Thank you very much.**

11 EXAMINER DAWSON: Any questions,
12 Mr. Brooks?

13 MR. BROOKS: No questions.

14 EXAMINER DAWSON: I have no questions.
15 Thank you very much, Mr. Haiduk.

16 MR. LARSON: With that, Mr. Examiner, I
17 have nothing further except to wish you and Mr. Brooks
18 and Mr. Goetze happy holidays.

19 EXAMINER BROOKS: Thank you.

20 EXAMINER DAWSON: Thank you. We wish you
21 happy holidays also, all of you.

22 So at this point, we'll take Case Number
23 15904 under advisement. Thank you very much.

24 And at this point, we'll also a ten-minute
25 break. Be back at 11:00.

1 (Case Number 15904 concludes, 10:50 a.m.)

2 (Recess, 10:50 a.m. to 11:03 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

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

20 DATED this 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters