

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

6 APPLICATION OF OXY USA, INC.  
7 FOR A NONSTANDARD SPACING AND  
8 PRORATION UNIT AND COMPULSORY  
9 POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15006

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS  
11 EXAMINER HEARING

12  
13 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER  
14 RICHARD EZEANYIM, TECHNICAL EXAMINER

15 June 27, 2013

16 Santa Fe, New Mexico

17  
18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, David K. Brooks,  
20 Chief Examiner, and Richard Ezeanyim, Technical  
21 Examiner, on Thursday, June 27, 2013, at the New Mexico  
22 Energy, Minerals and Natural Resources Department, 1220  
23 South St. Francis Drive, Porter Hall, Room 102, Santa  
24 Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
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500 4th Street, Northwest, Suite 105-  
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1 (8:21 a.m.)

2 EXAMINER BROOKS: Then we will call Case  
3 Number 15006, application of OXY USA, Inc. for a  
4 nonstandard spacing and proration unit and compulsory  
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MS. CHAPPELLE: Good morning, Hearing  
8 Examiner. My name is Germaine Chappelle, Gallagher &  
9 Kennedy, and I'm representing OXY. I have several  
10 witnesses here. We don't know if anyone is objecting.

11 EXAMINER BROOKS: How many witnesses?

12 MS. CHAPPELLE: We have three.

13 EXAMINER BROOKS: Any other appearances?  
14 Very good.

15 Will the witnesses stand and identify  
16 themselves, please?

17 MR. ERICKSON: My name is Richard Erickson.

18 EXAMINER BROOKS: Each witness will need to  
19 state your name.

20 MR. CANON: My name is Christopher Canon.

21 MR. GERRARD: I'm Bruce Gerrard.

22 EXAMINER BROOKS: Witnesses remain  
23 standing, and the court reporter will swear the  
24 witnesses.

25 (Mr. Erickson, Mr. Canon and Mr. Gerrard

1 sworn.)

2 EXAMINER BROOKS: Okay. Counsel, we need  
3 you up here at the counsel table, and we need the first  
4 witness at the table on the left, to my left.

5 MS. CHAPPELLE: Chris.

6 EXAMINER BROOKS: Since this is a  
7 compulsory pooling case and they're pretty routine,  
8 opening statements are not usual, but you have the  
9 opportunity to make one if you want to.

10 MS. CHAPPELLE: Thank you, sir. What I'd  
11 like to do is just get you a copy of our exhibits up  
12 front, so you can follow through.

13 EXAMINER BROOKS: Okay. That would be  
14 helpful.

15 MS. CHAPPELLE: May I approach?

16 EXAMINER BROOKS: Yes.

17 Of course, you need a set for the court  
18 reporter, but it would be good to have a set for the  
19 technical examiner and for myself.

20 MS. CHAPPELLE: What I'd like to do first  
21 is qualify the witness as an expert.

22 EXAMINER BROOKS: That is customary. You  
23 may please call the witness for the record, and then you  
24 may proceed.

25 MS. CHAPPELLE: I call Christopher Canon as

1 my first witness.

2 EXAMINER BROOKS: Okay. You may proceed.

3 CHRISTOPHER J. CANON,

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

6 DIRECT EXAMINATION

7 BY MS. CHAPPELLE:

8 Q. Mr. Canon, can you please give us your  
9 background; who do you work for, state your name and  
10 address and your qualifications?

11 A. My name is Christopher John Canon. I'm a  
12 senior land negotiator for Occidental Petroleum. I  
13 received a bachelor of business administration from  
14 Texas A & M University, 2001; a J.D. from Texas Tech  
15 School of Law, 2004, and I've been a landman for eight  
16 years.

17 Q. Have you ever testified in this hearing  
18 examiner's room before?

19 A. No.

20 MS. CHAPPELLE: With that, I tender the  
21 witness.

22 EXAMINER BROOKS: Okay.

23 You're a geologist, correct?

24 THE WITNESS: I'm a landman.

25 EXAMINER BROOKS: A landman.

1 THE WITNESS: Yes, sir.

2 EXAMINER BROOKS: And have you reviewed the  
3 land matters related to this case?

4 THE WITNESS: Yes, sir.

5 EXAMINER BROOKS: Very good. He is so  
6 qualified.

7 MS. CHAPPELLE: Thank you, sir.

8 Q. (BY MS. CHAPPELLE) I'd like to direct your  
9 attention to what's labeled Exhibit 1, and if you could  
10 describe that for the Hearing Examiner, please?

11 A. Exhibit 1 is a extended map overview of the  
12 area where the well lies in relation to surrounding  
13 townships and within the state. It is in the center of  
14 the big blue circle, and this is just to give context.

15 Q. Are you familiar with the status of lands in  
16 the subject area?

17 A. Yes.

18 Q. We're going to go to that next.

19 MS. CHAPPELLE: So with that, I'd like to  
20 offer Exhibit 1 into the record.

21 EXAMINER BROOKS: Okay. It's customary  
22 here to offer all your exhibits after you finish  
23 examining the witness.

24 MS. CHAPPELLE: After. Okay. Thank you,  
25 Hearing Examiner.

1 Q. (BY MS. CHAPPELLE) With that, I'd like you to  
2 turn to Exhibit 2, please, and could you describe that  
3 exhibit?

4 A. Exhibit 2 is an overview of the subject of our  
5 application today. It shows our requested nonstandard  
6 spacing of 160 acres in the south half of the south half  
7 of Section 26, Township 23 South, Range 30 East. It  
8 also shows a brief breakdown of working interests, which  
9 we look, additionally, on a subsequent slide of the area  
10 at issue.

11 The red star on the exhibit is the proposed  
12 well, the FNR 26 Federal #4H. Additionally within this  
13 40-acre spacing unit, under a Joint Operating Agreement  
14 dated 8/25/98, we have the FNR 26 Federal #1, and  
15 highlighted in yellow is shared by OXY and  
16 ConocoPhillips, also 50/50, under Federal Lease  
17 NM0531277A.

18 Q. Thank you.

19 And could we please proceed to Exhibit  
20 Number 3?

21 A. Exhibit Number 3, as I said, is just a brief  
22 breakdown of the shared working interests across the --  
23 in the spacing unit, the requested spacing unit. As you  
24 can see, OXY and ConocoPhillips share the working  
25 interest, 50 percent each.

1 Q. Thank you.

2 And let's move now to Exhibit 4. Can you  
3 please discuss the negotiations that occurred between  
4 ConocoPhillips and OXY regarding voluntary  
5 participation?

6 A. Exhibit 4 is, as the title states, an Event  
7 Timeline. It shows a brief breakdown of our ongoing  
8 negotiations over the last several months in our  
9 attempts to come to an agreement as to the proposed well  
10 with our partner in the well. As you can see reading  
11 through the timeline, OXY has shown diligence in trying  
12 to find a mutually agreeable contract agreement between  
13 the two parties.

14 Q. And to date, has OXY reached an agreement with  
15 ConocoPhillips?

16 A. We have not.

17 Q. So do they remain uncommitted to this proposed  
18 well?

19 A. Yes.

20 Q. Please move to Exhibit 5 and describe that.

21 A. Exhibit 5 shows a -- Exhibit 5 is a copy of the  
22 original well proposal and AFE that we sent to  
23 ConocoPhillips on March 8th, 2013 giving them notice of  
24 our current plans to spud the well. And additionally  
25 attached is an AFE which breaks down the proposed costs



1 estimated for the well.

2 Q. And does it also include certification of the  
3 receipt of the --

4 A. Yes. Yes. Additionally attached is a copy of  
5 the, I guess, green card that was returned to us that is  
6 the certified return receipt that we received back from  
7 ConocoPhillips on April 2nd. We did not hear a response  
8 back from them by the 30-day expiration of May 2nd.

9 Q. Thank you.

10 And let's turn now to Exhibit Number 6, and  
11 please describe that for the Hearing Examiners.

12 A. Exhibit Number 6 is an overview of the proposed  
13 lateral surface and bottom-hole location for the  
14 Federal -- or for the FNR 26 Federal #4H. Its purpose  
15 is to show you that we are within the state-prescribed  
16 setbacks of 330. This well lies in the Forty-Niner  
17 Ridge Delaware southeast pool. And there are not any  
18 prescribed pool-specific rules for spacing, so these  
19 default, my understanding is, to the state rules, which  
20 is 330. And this is to illustrate that we are staying  
21 within normal setbacks.

22 Q. Thank you.

23 Do you also have a standard penetration  
24 point, as well as a standard bottom-hole location?

25 A. Yes.

1 Q. And what is the status of BLM's knowledge of  
2 this particular forced pooling?

3 A. They have made no comments as to concerns  
4 regarding the forced pool, although we have contacted  
5 them, and they -- they have no issues that they've  
6 raised to date.

7 Q. Do you have a copy of our pre-hearing  
8 memorandum in front of you?

9 A. I do not.

10 MS. CHAPPELLE: May I pass that to the  
11 witness?

12 EXAMINER BROOKS: You may.

13 MS. CHAPPELLE: Thank you.

14 Q. (BY MS. CHAPPELLE) And if you wouldn't mind  
15 just reviewing the bottom of page 2, onto the top of  
16 page 3.

17 EXAMINER EZEANYIM: Which exhibit are we  
18 talking about?

19 MS. CHAPPELLE: The pre-hearing statement.

20 EXAMINER EZEANYIM: Oh, the one you  
21 submitted? The one you submitted, right?

22 MS. CHAPPELLE: Oh. Yes, sir. Yes, sir.

23 A. Okay.

24 Q. (BY MS. CHAPPELLE) So I just wanted to -- do  
25 you want to clarify your answer with respect to BLM's

1 communication on the issue?

2 A. We did contact the BLM regarding the matter,  
3 and they neither oppose nor support this application.

4 Q. Thank you so much.

5 A. Sure.

6 Q. If you wouldn't mind going back to the AFE for  
7 a moment. Are the costs that are reflected on the AFE  
8 consistent with what the company has incurred for  
9 drilling similar wells in the area?

10 A. Yes.

11 Q. Has the company made an estimate of the  
12 overhead and administrative costs while drilling this  
13 well, if successful?

14 A. Yes.

15 Q. And would you please provide those numbers for  
16 the Examiners?

17 A. 740 per day for producing, and 6,700 a day for  
18 drilling.

19 Q. Are these costs, likewise, consistent with what  
20 the company and other operators in this area charge for  
21 similar wells, to your knowledge?

22 A. Yes.

23 Q. Does the company request that these figures be  
24 incorporated into any order and that the order provide  
25 them to be adjusted in accordance with the COPAS,

1 C-O-P-A-S, guidelines?

2 A. Yes.

3 Q. Now, with respect to the formation of the  
4 nonstandard unit, has the company brought a geologist  
5 today to provide technical testimony in support of the  
6 proposed nonstandard unit?

7 A. Yes.

8 Q. Referring to Exhibit 7, which I'm going to hand  
9 you, it's a draft.

10 MS. CHAPPELLE: And you don't have a copy  
11 of that. My secretary is bringing the notarized copy.

12 EXAMINER EZEANYIM: I don't have a 7, do  
13 you?

14 EXAMINER BROOKS: No. That's what she just  
15 said; we don't have 7.

16 MS. CHAPPELLE: But I will provide that to  
17 you before the end of the hearing.

18 EXAMINER BROOKS: Okay.

19 Q. (BY MS. CHAPPELLE) So could you please describe  
20 Exhibit 7?

21 EXAMINER EZEANYIM: Do we need to see what  
22 he's describing? I need to see the plat.

23 EXAMINER BROOKS: It's going to be provided  
24 later. I think it would be more efficient to go ahead  
25 and have him go through it. I take it this is the

1 Notice of Affidavit?

2 MS. CHAPPELLE: It's the notice of  
3 affidavit. She just needs to bring the signed -- the  
4 notarized copy.

5 EXAMINER EZEANYIM: I thought it was a  
6 diagram.

7 MS. CHAPPELLE: Oh, sorry. Yeah, I  
8 apologize.

9 A. Exhibit 7 is an affidavit that is attesting to  
10 the notice requirements under New Mexico rules.

11 Q. (BY MS. CHAPPELLE) For other interested owners.

12 Can you please read off, on the next page,  
13 the interested owners that were notified?

14 A. Yes. We were notified -- we notified  
15 ConocoPhillips and A.G. Andrikopoulos Resources, Inc.

16 Q. And then there is one more.

17 A. And Wesley Ingram, with the BLM.

18 MS. CHAPPELLE: So as soon as she gets here  
19 with that, I'll submit that one.

20 So with that, I'd like to admit Exhibits 1  
21 through 6, and then admit Exhibit 7 when she gets here.

22 EXAMINER BROOKS: Okay. Exhibits 1 through  
23 7 will be admitted, and subject to furnishing additional  
24 copies of Exhibit 7.

25 (OXY USA, Inc. Exhibit Numbers 1 through 7

1                   were offered and admitted into evidence.)

2                   CROSS-EXAMINATION

3   BY EXAMINER BROOKS:

4           Q.    I guess I'll start at the end and work  
5   backwards because it's fresh in my mind.

6                   The person you noticed -- you noticed  
7   ConocoPhillips, and you noticed Wesley Ingram. There is  
8   one other person. What's their interest?

9           A.    Wesley Ingram is --

10          Q.    Well, I know who Wes Ingram is.

11          A.    Oh, yes, sir.

12          Q.    What's the other person you noticed?

13          A.    Oh. A.G. Andrikopolous Resources, Inc. is an  
14   overriding royalty interest owner.

15          Q.    Are there any other overriding royalty  
16   interests?

17          A.    No, sir.

18          Q.    And these are both federal leases, right?

19          A.    It's one federal lease.

20          Q.    Okay. And the one in the southwest quarter, is  
21   that a private lease?

22          A.    That's under an existing operating agreement  
23   between ConocoPhillips and OXY.

24          Q.    But it's a lease of some kind, right?

25          A.    It's part of the same lease.

1 Q. So this whole -- this whole unit is one federal  
2 lease?

3 A. Yes, sir.

4 Q. And this gentleman -- this group you notified,  
5 they're the overriding royalty interest owner?

6 A. Yes, sir.

7 Q. Let's see what else I've got here.

8 The dimensions you have given, the location  
9 on Exhibit 6, from the left, or the west end, that's the  
10 surface location, right?

11 A. Yes, sir.

12 Q. And on the east, that's the bottom hole,  
13 correct?

14 A. Yes.

15 Q. And then on Exhibit 9 --

16 MS. CHAPPELLE: We haven't gotten there  
17 yet.

18 EXAMINER EZEANYIM: Haven't gotten to 9.

19 Q. (BY EXAMINER BROOKS) Well, I'm just referring  
20 to it because it identifies the landing point.

21 A. Yes, sir.

22 Q. Do you know if the landing point is going to be  
23 approximate -- is the first proration going to be  
24 approximately at that location, or is that something I  
25 should ask another witness?

1           A.    I'm going to defer to our geologist and  
2   engineers that will testify.

3           Q.    Very good.

4           A.    Yes, sir.

5           Q.    Now, the overhead rates that you've proposed,  
6   are those the same as you're currently paying -- or  
7   you're currently receiving under the terms of the joint  
8   operating agreement that applies to part of this unit?

9           A.    Yes, sir.

10          Q.    I believe that's all I need to know.

11                   EXAMINER BROOKS:  Mr. Ezeanyim?

12                   MS. CHAPPELLE:  So I do have Exhibit 7 now.

13                   EXAMINER BROOKS:  Good.

14                   MS. CHAPPELLE:  Do you mind if I approach?

15                   EXAMINER BROOKS:  You may approach.

16                   MS. CHAPPELLE:  Thank you.

17                               CROSS-EXAMINATION

18   BY EXAMINER EZEANYIM:

19          Q.    What is your name, again?

20          A.    Christopher Canon.

21          Q.    You went to a good school.

22          A.    Ah.  Thank you.  You can just call me Chris.

23          Q.    Okay.  I can call you Chris.  Thank you.

24          A.    Yes.

25          Q.    Let's go to Exhibit Number 2.



1 A. Yes, sir.

2 Q. I know they're going to ask you that question.  
3 In that one 40-acre -- let me find where they are  
4 located -- there are two wells to be drilled, right?

5 A. There's one. The blue dot is the FNR 26  
6 Federal #1, and it's an existing well.

7 Q. Is it a horizontal well or a vertical well?

8 A. Yes, sir.

9 Q. Which one is it?

10 A. It's the vertical.

11 Q. It's a vertical well?

12 A. The blue dot, yes, sir, is the vertical.

13 Q. And you are going to drill -- who drilled that  
14 vertical well?

15 A. We did.

16 Q. You did. Okay.

17 A. Actually, I apologize. Our predecessor did.

18 Q. Okay. And do you know when it was drilled?

19 A. It was drilled in 1998.

20 Q. So it's producing now; it's already fracked,  
21 right?

22 A. Yes, sir.

23 Q. Now, do you know the distance between that well  
24 and the one you are proposing?

25 MS. CHAPPELLE: If I may, we do have an

1 expert to answer that question more thoroughly, if you'd  
2 like.

3 EXAMINER EZEANYIM: I guess so. Maybe I  
4 have asked the wrong person.

5 Q. (BY EXAMINER EZEANYIM) I wanted to find out --  
6 I'll go back to Exhibit Number 2, because it's very  
7 important for our consideration here.

8 A. Yes, sir.

9 Q. What Township are we talking about here?

10 A. It's Township 23 South, Range 30 East.

11 Q. I would like you to -- is it possible for you  
12 to give me a pattern of development in that area, in the  
13 area of that township, to show me how the development is  
14 going in that area? I just got this (indicating) from  
15 somebody; something like this (indicating), you know  
16 indicating with colors which is yours and which is  
17 ConocoPhillips in this township?

18 A. Yes.

19 Q. I want to look at the development, and I wanted  
20 to see the pattern of development in that area.

21 A. Yes, sir.

22 Q. Can you provide me a map showing that?

23 A. And are you -- are you getting at as far as  
24 direction of the horizontals or --

25 Q. No. No. I guess, you know, what we are

1 looking at --

2 A. Yes, sir.

3 Q. -- here in this township, tell me which  
4 wells -- which wells are in there, and then I will see  
5 if they're horizontal -- indicate them by horizontal, if  
6 they are vertical. I want to see the pattern of  
7 development in that township. That's really my  
8 interest. It doesn't have any impact on what you are  
9 seeking today, but I'm just --

10 A. Okay.

11 Q. -- asking, so don't think I'm asking you to get  
12 something --

13 A. Oh, no, sir.

14 Q. I want you to relax, and get me that  
15 information.

16 A. Okay. Yes, sir. Would you like me to follow  
17 up with that? I mean, I can --

18 Q. Yeah, after the hearing. You can't do it now,  
19 so maybe you can get it and --

20 A. Okay. I'll be happy to.

21 Q. Just for my information, to see what's going  
22 on.

23 A. Yes, sir.

24 Q. Now, let's go back to your agreement with  
25 ConocoPhillips. Both of you have interest in that well,

1 50/50. I know Conoco has an interest in that, 50/50  
2 plus -- override this interest. Okay. Now, you  
3 mentioned a chronology that you were talking about. Did  
4 you talk to a person or just e-mail?

5 A. No, sir. I talked to my counterpart, another  
6 landman at ConocoPhillips.

7 Q. At ConocoPhillips.

8 What was it? What did he say? Why are  
9 they not participating in drilling this well?

10 A. They were in the process of evaluating, and we  
11 had placed -- as Exhibit Number 4 shows, we had  
12 negotiated a rough agreement subject to management  
13 approval. They originally mailed us an offer of that.  
14 We reviewed it and counteroffered, and with our  
15 counteroffer, we were waiting on a response either as to  
16 approval or a counteroffer from ConocoPhillips, and we  
17 never heard back.

18 Q. Well, you know, I tend to think OXY and  
19 ConocoPhillips are operators.

20 A. Yes, sir.

21 Q. And here you say you give them 30 days to  
22 evaluate, and after the expiration of the 30 days, you  
23 went ahead and come to hearing.

24 A. Yes, sir.

25 Q. I know you guys are new to the hearing here,

1 but I need to say this. It's better for you guys to you  
2 negotiate this instead of coming to hearing, because,  
3 you know -- I mean, you rush to hearing after 30 days.  
4 I would prefer you waited and see whether ConocoPhillips  
5 intends to drill this, whether it's economic or not,  
6 because if it's economic, I don't see why they shouldn't  
7 participate in drilling the well. Okay?

8 A. Uh-huh.

9 Q. So rushing in here would be to make me work,  
10 so -- you know, that's why we're here. If you are not  
11 in agreement -- of course, you have the right to be  
12 here.

13 A. Yes, sir.

14 Q. But I want due process to take place before you  
15 finally come here.

16 A. Uh-huh. I agree with you.

17 We tried over the course of several months.  
18 And if you look on Exhibit 4, our original spud date for  
19 that well was going to be in early February, and we  
20 pushed the estimated spud date of the well back four  
21 times in anticipation of ConocoPhillips getting us a  
22 response, and they refused to give us a response. We  
23 tried with a lot of effort to accommodate them as much  
24 as possible, but, unfortunately -- and they understand,  
25 as an operator, as much as we do, that we have to move

1 forward with our rig schedule. And so that's,  
2 unfortunately, the situation that we're in right now.  
3 We do not wish to be here, but sometimes, unfortunately,  
4 you have to, you know, continue to move forward.

5 Q. I'm not trying to let you not come here. You  
6 can come here as much as you want.

7 A. Yes, sir.

8 Q. But I wanted something to be done before you  
9 come. That's all I'm saying. I'm not saying that to  
10 be -- as a lawyer, but for my own purposes, you know, if  
11 you have agreed to drill this well 50/50 -- you-all own  
12 50/50. It's not like it's .0025 in that unit and you  
13 have to go nonconsent. And I'm beginning to wonder why  
14 there was no consent. They have 50 percent interest. I  
15 mean, you know, unless they think it's not a good well.  
16 And then that might be why I may not like you to fund  
17 this in this project area, and then you come and say,  
18 you know, it's a wash. Why would we allow you to waste  
19 that money? And we don't want to do that. Then why is  
20 ConocoPhillips not consenting? If there is more working  
21 interest, I can understand why they are letting it go.  
22 But 50 percent and they're not doing anything, I begin  
23 to wonder why.

24 A. Uh-huh.

25 Q. Do you understand what I'm saying?

1 A. Yes, sir.

2 Q. 50/50 is a big interest in that unit.

3 A. I would have to defer to ConocoPhillips --

4 Q. I know.

5 A. -- yeah, on that.

6 Q. But I'm just wondering why they are not trying  
7 to participate in the well. Somebody really has to make  
8 that decision, I would think. Well, maybe they think  
9 this unit is not going to be productive. I mean, if  
10 they are 50 percent, why would they go nonconsent and  
11 then get compulsory pooled at 50 percent? That means  
12 that this is a gusher. I mean, what you're looking for  
13 definite oil. See what I mean? You know, from my own  
14 perspective, I have to ask this question to you as the  
15 land person.

16 Of course, if there is an engineer, I would  
17 like to talk to the engineer, so he can tell me what you  
18 are expecting from this unit, because we can't just form  
19 a unit just to form a unit. We want to form a unit that  
20 will be productive.

21 A. Uh-huh. I think that our geologist and  
22 engineer will show to you, with their testimony, that we  
23 believe that it is -- it does have a lot of potential,  
24 the area does, and --

25 Q. Okay. I understand that. Okay.

1                   And then on Exhibit 4, were you talking --  
2   you are a land negotiator, right?

3           A.    Yes, sir.

4           Q.    Are you a landman, too?

5           A.    Yes, sir.  The title that OXY uses for our  
6   landman -- for our operations landman is land  
7   negotiator, so it's an official title, but I'm a landman  
8   by trade.

9           Q.    So there is no difference?

10          A.    No, sir.

11          Q.    So on Exhibit Number 4, what are the events  
12   that took place?  That's all you did with them, right?

13          A.    Yes, sir.

14          Q.    Apart from talking to him -- did you talk to  
15   him on the phone --

16          A.    There were several other e-mails, brief  
17   one-line correspondences regarding, you know, estimated  
18   time for response, things of that nature.  As far as  
19   important or notable moments in the course of our talks,  
20   that's what I was trying to do with this exhibit.  You  
21   know, in the course of negotiations, as you can see,  
22   those were ongoing, several phone calls, but I guess the  
23   culmination of that was in the offer exchanges between  
24   the two companies.

25          Q.    And don't get me wrong.  We're not trying to



1 discourage you. You have the right --

2 A. Oh, yes, sir.

3 Q. -- to drill, but I'm trying to -- since you  
4 came in here, I'm going to ask you questions to see if  
5 it's prudent for us to fund that unit or not.

6 A. Uh-huh.

7 Q. That would be my exercise. You have the right  
8 to do anything you want to do, but now, from our own  
9 perspective, we have the right to say, Are you sure you  
10 want to do that?

11 A. Uh-huh.

12 Q. Anyway, I think that's all I have. Some of the  
13 questions I have may be for a technical person.

14 A. Yes, sir.

15 EXAMINER BROOKS: I forgot one thing.

16 RE CROSS EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. Just to be sure I have this right, you said  
19 southeast Forty-Niner Ridge Delaware pool?

20 A. Yes, sir.

21 Q. And this is going to be completed in the  
22 Delaware Formation?

23 A. Yes, sir.

24 Q. And are you asking to pool any other formations  
25 or just the Delaware?

1 A. No, sir.

2 Q. Just the Delaware?

3 A. Just the Delaware, just the Lower Brushy  
4 Canyon.

5 Q. You have to watch that it's the appropriate  
6 response.

7 A. Yes, sir.

8 Q. My colleague asked you if that other one was a  
9 vertical or a horizontal and you said yes. It's kind of  
10 like --

11 A. It can get confusing.

12 Q. -- when they interviewed Al Capp about Li'l  
13 Abner and Daisy Mae and the child. And they asked him  
14 if it was a boy or girl, and he said yes.

15 (Laughter.)

16 RECROSS EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. On your producing rate, is it 740 or 745? Is  
19 that what -- your is drilling \$6,700. What is your  
20 producing rate --

21 A. Producing rate is ---

22 Q. -- overhead?

23 A. Overhead rate is approximately \$740 a day.

24 Q. Okay. And is that -- I know he asked you that  
25 but is that normally ten percent -- ten percent of the

1 drilling rate?

2 A. I believe so.

3 Q. But this is not?

4 A. Excuse me?

5 Q. But this is not?

6 A. This is not?

7 Q. This is half?

8 A. Yes. Under our existing operating agreement,  
9 it's adjusted.

10 Q. Okay.

11 A. So that's the reason for it being higher.

12 Q. Okay. As long as it's --

13 A. Uh-huh. It's consistent with COPAS.

14 Q. Okay. Good.

15 EXAMINER BROOKS: Counsel, anything  
16 further?

17 MS. CHAPPELLE: I do have just a few  
18 follow-up questions, if you don't mind.

19 REDIRECT EXAMINATION

20 BY MS. CHAPPELLE:

21 Q. Mr. Canon, if you can take a look at Exhibit 4,  
22 I just want to clarify the record real quick.

23 A. Yes.

24 Q. Can you tell me what date the well response --  
25 proposal -- I'm sorry -- was due from ConocoPhillips?

1 A. The response was due May 2nd, 2013.

2 Q. Okay. And since you don't have this file, I'm  
3 going to hand it to you again.

4 MS. CHAPPELLE: It's our application,  
5 Mr. Hearing Examiner.

6 Q. (BY MS. CHAPPELLE) And just to make sure I  
7 understand, what date -- and this is Exhibit 5. What  
8 date was the well proposal sent out, first page of  
9 Exhibit 5?

10 A. The letter is dated March 21st -- 28th.

11 Q. Could you please tell me what date we filed the  
12 application for forced pooling?

13 A. May 16th, 2013. Excuse me. June 27th. What  
14 is it here?

15 EXAMINER EZEANYIM: Today is June 27th.

16 A. Yeah, today is June 27th.

17 Q. (BY MS. CHAPPELLE) What's the date on the cover  
18 letter of the application, that page you're looking at  
19 right now?

20 A. May 16th.

21 Q. Okay. Thank you. That's all I have.

22 EXAMINER BROOKS: Thank you. Are you  
23 through?

24 MS. CHAPPELLE: I'm through with this  
25 witness.

1 EXAMINER BROOKS: Okay. The witness may  
2 step down.

3 You may call your next witness.

4 THE WITNESS: Thank you.

5 MS. CHAPPELLE: I'd like to call our  
6 geologist, Richard Erickson, please.

7 RICHARD J. ERICKSON,  
8 after having been previously sworn under oath, was  
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MS. CHAPPELLE:

12 Q. Mr. Erickson, please state your full name for  
13 the record.

14 A. My name is Richard John Erickson.

15 Q. And have you ever testified before this  
16 Division before?

17 A. I have not testified in New Mexico before. I  
18 have testified before the Oklahoma Corporation  
19 Commission for about 31 years, and I've been found to be  
20 an expert witness there.

21 MS. CHAPPELLE: If it please the Hearing  
22 Examiners, I'd like to qualify this witness as an  
23 expert.

24 EXAMINER BROOKS: Proceed.

25 MS. CHAPPELLE: Thank you.

1 Q. (BY MS. CHAPPELLE) Please give me your  
2 background, your work experience, your current position  
3 and your qualifications.

4 A. I have a master's degree in geology from  
5 Louisiana State University from 1982. I began working  
6 in the petroleum industry for Texaco in New Orleans in  
7 1978. I started working in Oklahoma in 1980, and I have  
8 worked on various geologic projects in New Mexico,  
9 Texas, Kansas and Oklahoma for about 30 years.

10 MS. CHAPPELLE: If it pleases the Hearing  
11 Examiners, I'd like to submit this witness as an expert.

12 EXAMINER BROOKS: Okay. Have you reviewed  
13 the geologic matters relevant to this application?

14 THE WITNESS: Yes, I have, and I prepared  
15 the exhibits.

16 EXAMINER BROOKS: Thank you, sir.

17 The witness is so qualified.

18 MS. CHAPPELLE: Thank you, sir.

19 Q. (BY MS. CHAPPELLE) Mr. Erickson, could you  
20 please describe and turn to Exhibit 8?

21 A. Exhibit 8 is a structure map of the proposed  
22 well area. The well that we've got is in the south  
23 half --

24 EXAMINER BROOKS: Well, Exhibit -- oh,  
25 okay. Yeah. I'm sorry. I see.

1           A.    The well that we're proposing is in the south  
2   half-south half of Section 26.  It will be drilled into  
3   the Lower Delaware, specifically into the Brushy Canyon  
4   Formation A2 Sand, and the lateral will run through that  
5   sand.

6                   This map is a structure map drawn on the  
7   top of that sand.  The structural contours are 20 feet,  
8   and looking at this map, you'll see that the structure  
9   contours run roughly north-south and that there is a  
10  general dip to the east.  It dips to the east, and it  
11  thickens slightly as you go to the east.

12                   It shows the location of two wells, the  
13  existing FNR 26 Federal #1, which is a vertical well in  
14  the center of the southwest-southwest of 26.  It also  
15  shows the FNR 28 -- I'm sorry -- 26 Fed 4H well.  The  
16  surface location is on the western part of that red  
17  line, which represents the well course, and the  
18  bottom-hole location is on the east end of that line.

19                   It shows the outline as a dark black-dashed  
20  line as the proposed outline for the 160-acre spacing  
21  and proration unit, and within that there is a dot-dash  
22  green line that shows the outline of the producing zone  
23  within that proposed unit, the producing zone being a  
24  space not less than 330 feet from the unit boundary.

25           Q.    Thank you, Mr. Erickson.

1                   If you could please proceed to Exhibit 9  
2     and describe that exhibit.

3           A.     Exhibit 9 is a detail of the southwest corner  
4     of Section 26, where we have our surface location for  
5     the proposed well, which is FNR 26 Fed #4H, and the  
6     location of the existing vertical well, the FNR 26 Fed  
7     #1. That existing well is 660 from the south line, 660  
8     from the west line. Our well will be 373 feet from the  
9     west line and 670 -- I'm sorry -- 670 feet from the  
10    south line.

11                   And it looks like the well goes right  
12    through the middle of the existing well. It does not.  
13    It passes very close, but it passes within the  
14    anticollision tolerances that we use at OXY. So it will  
15    not hit or intercept that well. It will pass to the  
16    north of it.

17                   It also shows -- on Exhibit 9, there is a  
18    little line called -- it says "build curve," coming from  
19    the surface location and building the curve part going  
20    from a vertical to a horizontal, but curving the well,  
21    and we'll build the curve through, and reaching a  
22    landing point 1,080 feet from the west line. And from  
23    there, the well will be roughly horizontal, crossing to  
24    the east part of that section.

25           Q.     Thank you, Mr. Erickson.



1                   If you could please turn to Exhibit 10 and  
2 describe that exhibit for the Hearing Examiners.

3           A.   Exhibit 10 is a vertical profile of the well,  
4 the proposed well, along the line of the well path. So,  
5 basically, that is Exhibit 9 turned 90 degrees. And you  
6 can see, on the left-hand side of that exhibit, the  
7 surface location. The well will be drilled vertically,  
8 down to approximately 3,500 feet below sea level, and  
9 that will curve. And it will hit a landing point at a  
10 depth of minus 4,310 feet subsurface true vertical  
11 depth, and it will go to the east. It will -- since the  
12 bed dips to the east, it will drop with the bed. It  
13 will actually be drilled about 35 feet below the top of  
14 the formation, so it will be 35 feet into the formation.  
15 And we will follow about 35 feet into the formation  
16 downward, as the bed dips to the east, and end up about  
17 minus 4,360 feet subsea true vertical depth at the toe,  
18 or TD end of the well.

19           Q.   Thank you, Mr. Erickson.

20                   If you could please proceed to Exhibit 11  
21 and describe the cross section.

22           A.   Okay. Exhibits 11 and 12 need to go together.  
23 It's a cross section. Exhibit 12 is a map showing the  
24 location of the cross section. And this is -- the main  
25 purpose of this exhibit is to show the vertical well,

1    which is right next to the vertical part of the  
2    horizontal well. And we can see, in the vertical well,  
3    FNR 26, the well on the left of the cross section, this  
4    cross section is drawn on the top of the A2 Sand, and it  
5    is the horizontal red line that runs across this cross  
6    section.

7                   And you see about 35 feet in a dark blue  
8    line, the A2 proposed lateral, and then the bottom of  
9    the main A2 zone is a red line below that.

10                   The cross section goes from the FNR 26  
11   Federal #1 well at the northwest end, going to the Devon  
12   Blackjack well about two miles to the southeast.

13                   EXAMINER BROOKS: So this diagonal red line  
14   is a cross section.

15                   THE WITNESS: Yes. The diagonal line on  
16   the map is the cross section.

17                   EXAMINER BROOKS: Usually they're labeled A  
18   to A prime.

19                   THE WITNESS: Yeah. I just labeled the  
20   wells.

21                   EXAMINER BROOKS: That's the reason I  
22   didn't recognize it as a cross section.

23                   THE WITNESS: Yes.

24                   EXAMINER BROOKS: Okay. Go ahead.

25                   A.    Anyway, if you look from those two wells,

1 you'll see the southeastern well, the Blackjack well;  
2 the zone gets a little bit thicker. And we'll stay  
3 pretty much right in the middle of that A2 zone. It  
4 shows that the zone is continuous. I didn't bring in  
5 other cross sections, but I've made many other cross  
6 sections in the area, and it shows that the A2 Sand is  
7 continuous reservoir all across the proposed 160-acre  
8 unit. And our horizontal plan for developing that well  
9 would effectively drain it. It would protect  
10 correlative rights, and it would prevent waste by  
11 drilling this horizontal well in that unit.

12 Q. (BY MS. CHAPPELLE) Thank you, Mr. Erickson.

13 Can you please address Hearing Examiner  
14 Ezeanyim's pattern of development question, specifically  
15 the discussion of potash in the area?

16 A. Yes. I'm glad you brought that up. This is  
17 critical to understanding. If we can go back to Exhibit  
18 Number 8. That's the structure map. This area is an  
19 active area of potash mining. There are active mines  
20 already underground and mining in the northern edge of  
21 that map, and they are mining to the south. And those  
22 mines will eventually come through Sections 23, 26 and  
23 probably down into 35.

24 So because the mines can't come right up  
25 and mine up to one of our wells, we have to restrict

1 where we are allowed to drill. So we are drilling --  
2 the current plan for most of the wells in those sections  
3 would be to drill from west to east, across those. And  
4 the potash is at about 800 feet below the surface.  
5 These wells are about 7,800 feet. So we are about --  
6 we're roughly a mile below the potash vertically, so  
7 we're well underneath it.

8 Q. Thank you, Mr. Erickson.

9 Did we bring someone here today to discuss  
10 well completion and also the issues regarding well  
11 proximity?

12 A. Yes. I think we have another witness for that.

13 If I may add one more thing to address your  
14 question about pattern of development. Because this is  
15 potash and right out here (indicating) the horizontal  
16 wells are fairly new, there are several horizontal wells  
17 shown on Exhibit 8. Two, one in the south half of  
18 Section 24 and one in the north half of Section 25, are  
19 off to the east of us. Those are Bone Spring horizontal  
20 wells. They are drilled from west to east. They're  
21 falling in, basically, the same 160-acre producing unit  
22 that we'll be using.

23 There are other wells. The Chesapeake  
24 Los Medanos in Section 36 and the Chesapeake well in  
25 Section 23, those run north-south, but those are for the

1 Bone Spring, specifically the 2nd Bone Spring sand. But  
2 we anticipate that we will develop this area with a  
3 series of east-west wells to develop the Brushy Canyon  
4 A2 zone.

5 EXAMINER EZEANYIM: See, that's why I asked  
6 that question, because of the potash in that area. I  
7 wanted to see how you are handling your agreement with  
8 the potash in that area. And that's why I requested  
9 that, you know, map.

10 THE WITNESS: Yes.

11 EXAMINER EZEANYIM: In the area, we have --  
12 oil production is going, and then where the potash is  
13 and everything. I don't know where exactly you guys  
14 are, but this is new -- of course, when we go into the  
15 process, I can ask you those questions. But that's why  
16 I was asking the landman to give me that plat so that I  
17 can look at the development in the area, especially in  
18 relation to what is going on with the mining. That's  
19 really why I asked that question.

20 THE WITNESS: We have met extensively with  
21 BLM in Carlsbad, talking about this development. We'll  
22 probably have a drilling island in the northeast corner  
23 of Section 26.

24 EXAMINER EZEANYIM: They told you that?  
25 You have an agreement?

1 THE WITNESS: Yeah, that's what we're  
2 thinking.

3 And you can see, there is a cluster of  
4 wells in the northeastern corner of 26, extending into  
5 the adjacent sections, and they're all starting from  
6 right in that little corner.

7 And then given the existing wells, for  
8 example, the well that we're going to drill, is right  
9 next to an existing well, and so that area is limited  
10 already by the existing well for potash mining.

11 EXAMINER EZEANYIM: Okay. Go ahead.

12 Q. (BY MS. CHAPPELLE) With respect to the exhibits  
13 you've referred to today, Mr. Erickson, were these  
14 exhibits prepared by you or under your direction?

15 A. I prepared them all.

16 MS. CHAPPELLE: With that, I'd like to  
17 submit Exhibits 8 through 12 for the record.

18 EXAMINER BROOKS: 8 through 12 are  
19 admitted.

20 (OXY USA Exhibit Numbers 8 through 12 were  
21 offered and admitted into evidence.)

22 MS. CHAPPELLE: With that, I pass the  
23 witness.

24 EXAMINER BROOKS: Very good. I have no  
25 questions.

1 Mr. Ezeanyim?

2 EXAMINER EZEANYIM: Okay. Thank you. I  
3 have some questions.

4 CROSS-EXAMINATION

5 BY EXAMINER EZEANYIM:

6 Q. You said this well is going to be in the Brushy  
7 Canyon?

8 A. Yes.

9 Q. The A Sand?

10 A. Yes, the A Sand.

11 Q. For the horizontal well, right?

12 A. Yes.

13 Q. The vertical well, where is it from the A Sand?

14 A. If you look at the cross section, which is  
15 Exhibit 11 --

16 Q. 11.

17 A. -- the existing well has actually commingled  
18 from production in Bone Spring lime. The Bone Spring  
19 2nd Sand is below this.

20 Q. They're both commingled? They are both  
21 commingled?

22 A. Yes.

23 And it is also producing from the A4, which  
24 is marked by the A4 red perforations on the left-hand  
25 side of that cross section.

1 Q. Okay.

2 A. Our perforations -- our lateral will be roughly  
3 90 feet below the existing perforations in the current  
4 vertical well.

5 Q. Okay. You done?

6 A. Yes, yes.

7 Q. Go back to Exhibit Number 8. That is the  
8 structure map.

9 A. Yes.

10 Q. Do you have any net isopach maps? I needed to  
11 see that net isopach map to see what -- can you get  
12 that?

13 A. I do not have a net isopach of it. The zone is  
14 60 feet -- well, actually, it's a little more than 60  
15 feet thick in this, and it does thicken to the east.  
16 Part of the problem with the net isopach map is that  
17 there are very few penetrations out there.

18 Q. That's the problem.

19 A. Yes.

20 Q. That is the problem. I need to see that  
21 isopach map. See, you don't want to drill into a  
22 pinch-out.

23 A. No. And I'm quite sure we won't. I think -- I  
24 think the cross section establishes the fact that the  
25 zone is continuous all the way across --



1 Q. Yeah, I can see.

2 A. -- thickens to the west. Other isopach --  
3 other maps and other cross sections in the area  
4 establish that it is definitely there, so I have  
5 absolutely no concern at all that we pinch-out or lose  
6 our zone. The established. The present in that -- in  
7 the Devon Blackjack well. It's also present in the  
8 Strata Roadrunner well in the northwest-northwest of  
9 Section 25. That well -- that zone is present here  
10 (indicating). These are all fairly new wells, and the  
11 logs have not all been completely released. And some of  
12 these horizontals, there are no open-hole logs.

13 Q. And why is that?

14 A. Because the operators felt they were not  
15 necessary.

16 Q. Okay. I see -- you know, the way you use the  
17 word "continuous," that's speaking from experience, when  
18 you say "continuous." Where you are really going to,  
19 it's not continuous. And that's why I wanted to see  
20 that net isopach map and look at your well and see what  
21 you're doing out there. Are you saying that you can  
22 come back with a net isopach map? Can you do that?

23 A. I don't have one today.

24 Q. Oh, yeah, but if you can do it --

25 A. Oh, yeah.

1 Q. I mean, I'd like to have that --

2 A. Okay.

3 Q. -- so that I can associate it with what you're  
4 saying. This is just a structure map.

5 A. Yes.

6 Q. This is just a structure map. And I can say,  
7 Yeah, it looks like it's continuous, but from  
8 experience, when you go -- you know from experience that  
9 you start seeing pinch-outs everywhere, but if you can  
10 give me a net isopach map, I can -- I can begin to  
11 understand what is going on there.

12 A. I can provide that. It would verify really  
13 what -- nothing more than what that cross section  
14 already establishes.

15 Q. That would be very informative.

16 A. I can get that.

17 Q. I will write down as one of the things you are  
18 going to get, this map -- this type of map (indicating)  
19 in the production area and also the net isopach map.

20 A. Okay. Very well.

21 Q. Okay. I hope your counsel is taking note of  
22 what I need with this, because it's a sensitive area.

23 And, again, let's go back to that FNR #1.  
24 That vertical well. Of course, when you look at it, it  
25 looks like it crosses -- what is your tolerance, OXY,

1 for the well from there to -- you know, your tolerance?

2 You say the tolerance is this many. The tolerance you

3 always have between wells, what is that tolerance?

4 A. The tolerance depends on how well we know the  
5 position of the well. A lot of these old vertical wells  
6 were built with no good vertical survey. We have gone  
7 back into the existing vertical well and we ran a gyro  
8 survey, so we know exactly where it is.

9 Q. I would like you to have run a microseismic,  
10 because, you know -- or even you can do it with a raw  
11 simulation to see what -- you know, because you are  
12 going to -- you are going to have to frack this well.  
13 There is no way you can drill it unfracked.

14 A. That's true.

15 Q. And I'm concerned about it being close to that  
16 vertical well that's producing.

17 A. I won't speak to it, but we have a witness with  
18 exhibits who is prepared to speak to exactly that  
19 question.

20 Q. Okay. Very good. That's what I want to hear,  
21 because I don't want complications. I have seen  
22 complications when they are close like that, and we want  
23 to avoid that, you know. I'm not saying you're not  
24 going to drill your well, but we need to take  
25 precautions on drilling that well, you know.

1 A. Yeah.

2 Q. What I'm saying is that -- oh, he's very hard.  
3 No, I'm not. I'm just trying to point out what I think  
4 we may have to do to be able to approve this nonstandard  
5 unit and maybe compulsory pooling. I don't know. But  
6 my concerns are, I don't know how close that horizontal  
7 well is to the vertical well, which is still producing.  
8 It's not plugged and abandoned. So we still have a  
9 possibility there might be complications to frack this  
10 horizontal well between those two wells.

11 A. This is a matter of concern that we have  
12 specifically addressed and which a later witness will  
13 discuss.

14 Q. Okay.

15 A. Concerning -- concerning the distance between  
16 the vertical well and the horizontal, I believe it's  
17 like 90 feet, but it's way uphole. It's in the  
18 build. It's way above where we're going to be fracking.

19 Q. Is that what you are indicating here, 90 feet?

20 A. Yeah.

21 Q. It's Exhibit 11?

22 MS. CHAPPELLE: We've got a better exhibit.

23 EXAMINER EZEANYIM: What's that?

24 MS. CHAPPELLE: We have a better exhibit.

25 A. A better exhibit for that.

1 EXAMINER EZEANYIM: Okay. Somebody's  
2 coming.

3 A. We'll see that.

4 Q. (BY EXAMINER EZEANYIM) Okay.

5 A. But the thing is, where the two wells cross,  
6 it's way uphole. It's in the curve. It's not in the  
7 lateral. So it will be considerably uphole from where  
8 we would be doing our treatment and fracking.

9 Q. Okay. Very good.

10 A. But I'll let the other witnesses testify.

11 Q. One more question.

12 A. Yes.

13 Q. This is the -- when we talk about potash  
14 mining, there are two operators. There is Mosaic and  
15 Intrepid. Did you ever talk to them?

16 A. We don't talk to them directly. We talk to --  
17 at least I don't. We talk to BLM, and they talk to  
18 them. The BLM showed them our proposed locations, and  
19 the potash had no objections. And that's what the BLM  
20 told us at a recent meeting.

21 Q. Okay. Very good. I just wanted to get that  
22 out of the way --

23 A. Yeah.

24 Q. -- that they have no objection, because they're  
25 ambitious over there and not allow you guys to drill,

1     which is frustrating. But that's okay. At least I am  
2     happy they are not objecting. Is that what you said?

3           A.     Yeah. We have met with BLM, and we have gone  
4     through the core data on the potash. We know there is a  
5     core that's just north of this well that had no potash  
6     ore.

7           Q.     Okay. The horizontal well is produced from  
8     A Sand, and the vertical well is producing, you said,  
9     downhole, commingling with the A Sand -- A2 Sand and  
10    what?

11          A.     And Bone Spring.

12          Q.     Bone Spring.

13          A.     Yeah, two Bone Springs, the Bone Spring  
14     carbonate and the 2nd Bone Spring sand.

15          Q.     Okay. That's all I have.

16                   EXAMINER BROOKS: I have just one more  
17     question here because of some of the questions that were  
18     asked here.

19                   CROSS EXAMINATION

20     BY EXAMINER BROOKS:

21          Q.     The well that's depicted in Section 36 --

22          A.     Yes.

23          Q.     -- that well is not in the Delaware?

24          A.     That is producing in the Bone Spring.

25          Q.     Okay.

1           A.    It's also on state land, and BLM has very  
2   limited ability to interfere with what they do.

3           Q.    Okay. And then the well down in Section 1  
4   that's depicted on Exhibit 12, what formation is that  
5   in, the horizontal?

6           A.    That horizontal, I'm not -- I don't recall if  
7   it's in -- I believe it's in the Delaware. I'm not  
8   entirely sure.

9           Q.    Okay.

10          A.    The Blackjack Federal, the vertical well that's  
11   in the cross section, is Delaware.

12          Q.    Right.

13                   Okay. And then you said you had identified  
14   this same zone and the well up in the east half-east  
15   half of 23?

16          A.    25. It's the one labeled.

17          Q.    Oh. The north half-north half of 25, Strata  
18   Roadrunner Fed #1H?

19          A.    Yes.

20          Q.    So, basically, however you depict it, your  
21   conclusion is, this zone extends across -- Unit 26 is  
22   basically based on what you find in the Blackjack and  
23   what you find in the Strata Roadrunner, correct?

24          A.    That is correct. And it's also present in  
25   wells off the map to the east. It's rather extensive.

1 We're also developing it to the south.

2 Q. Right.

3 A. So it's a pretty continuous zone. It does not  
4 pinch out in this area. It pinches out off to the east,  
5 but several miles -- I'm sorry -- to the west, but many  
6 miles to the west.

7 Q. So in your opinion, is it probable that this  
8 proposed south half-south half of 26 unit will be more  
9 or less continuously productive across the proposed  
10 unit?

11 A. That's correct.

12 Q. Thank you. That's all I have.

13 EXAMINER EZEANYIM: We need that isopach  
14 map.

15 THE WITNESS: Okay.

16 EXAMINER BROOKS: Anything further from  
17 counsel?

18 MS. CHAPPELLE: I do just have two  
19 follow-ups, Mr. Hearing Examiner. I did get a note from  
20 our previous witness, the landman, to answer the Hearing  
21 Examiner's question about notice to potash, and I can  
22 bring him up to get that on the record if you like.

23 EXAMINER BROOKS: I don't think that's  
24 pertinent because BLM drilled the well.

25 MS. CHAPPELLE: The other thing pertinent



1 to Hearing Examiner Ezeanyim's questioning, we do have a  
2 little more detail on the cross section, if you-all  
3 would like to see that. We can also offer the  
4 supplement with the isopach map, but I can supplement  
5 that as Exhibit 11A, if you would like.

6 EXAMINER BROOKS: That's up to  
7 Mr. Ezeanyim.

8 EXAMINER EZEANYIM: Yeah. Oh, yeah, we  
9 accept anything.

10 MS. CHAPPELLE: I'm sorry. I'll just have  
11 the witness discuss it a little.

12 REDIRECT EXAMINATION

13 BY MS. CHAPPELLE:

14 Q. Mr. Erickson, if you wouldn't mind describing  
15 that exhibit, please.

16 A. I had to fit everything onto legal paper. The  
17 FNR 26 Federal #1 vertical well got a little bit  
18 squashed, so there is a slightly expanded version of it  
19 that is shown on Exhibit 11A. You can see the BC A4 top  
20 shown on this map just above the perforated interval and  
21 the perforated vertical are shown. Then down deeper is  
22 the BC A2. And our lateral will be about 90 feet below  
23 the existing prorations. It's just a little bigger view  
24 of the same log.

25 EXAMINER EZEANYIM: And this is the

1 vertical well.

2 THE WITNESS: This is the vertical well,  
3 yes.

4 EXAMINER EZEANYIM: Okay. Thank you for  
5 that.

6 EXAMINER BROOKS: Questions?

7 EXAMINER EZEANYIM: No.

8 EXAMINER BROOKS: Very good. The witness  
9 may step down.

10 Let's take a ten-minute recess.

11 (Break taken, 9:22 a.m. to 9:35 a.m.)

12 EXAMINER BROOKS: Back on the record.  
13 You may call your next witness.

14 MS. CHAPPELLE: I'd like to call Bruce  
15 Gerrard, please.

16 BRUCE A. GERRARD,  
17 after having been previously sworn under oath, was  
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MS. CHAPPELLE:

21 Q. Mr. Gerrard, can you please state your name?

22 A. Bruce Andrew Gerrard. I'm the senior  
23 production operations engineer at OXY.

24 Q. Mr. Gerrard, have you been qualified as an  
25 expert or testified before this Division in the past?

1           A.    No, I have not.

2                   MS. CHAPPELLE:  I'd like to qualify this  
3   witness as an expert, please.

4                   EXAMINER BROOKS:  Proceed.

5           Q.    (BY MS. CHAPPELLE) Mr. Gerrard, please give us  
6   your background, including education, experience and  
7   qualifications for being an expert in this case.

8           A.    All right.  I have a technical diploma from the  
9   Northern Alberta Institute of Technology in Alberta,  
10   Canada, and I also have an engineering degree from the  
11   University of Calgary in mechanical engineering, with a  
12   petroleum minor.

13                   I have a professional status in the  
14   province of Alberta, including a professional  
15   designation.  I have 15 years of petroleum engineering  
16   experience, touching on production work whether it's  
17   facilities, operations, reservoir and completions.  And  
18   the majority of the experience is completions in  
19   production.  I've worked in British Columbia, Alberta --  
20   British Columbia, Alberta, Canada and in Wyoming, United  
21   States.

22           Q.    Do you have knowledge of the subject  
23   application, and have you reviewed it?

24           A.    Yes, I have, and yes, I do.

25                   MS. CHAPPELLE:  With that, I'd like to

1 tender him as an expert.

2 EXAMINER BROOKS: He is so qualified.

3 MS. CHAPPELLE: Thank you.

4 EXAMINER EZEANYIM: Can you state your  
5 name, again?

6 THE WITNESS: Bruce Gerrard.

7 EXAMINER EZEANYIM: Can you spell that last  
8 name?

9 THE WITNESS: G-E-R-R-A-R-D, Gerrard.

10 EXAMINER BROOKS: And one other comment.  
11 It's not necessary here to ask for permission to qualify  
12 the witnesses. It's customarily done. We always expect  
13 it.

14 MS. CHAPPELLE: Thank you. I didn't want  
15 to presume.

16 Q. (BY MS. CHAPPELLE) Mr. Gerrard, if you could  
17 please turn to Exhibit 13 and describe that exhibit for  
18 the Hearing Examiners.

19 A. So Exhibit 13 is the proposed completion scheme  
20 for this well. It is a 13-stage packer sliding sleeve  
21 completion, with each stage receiving roughly 130,000  
22 pounds of sand. Of course, the completion will start at  
23 the toe and move back towards the heel. And as we move  
24 more towards the heel, we move towards the vertical FNR  
25 well.

1                   We have a seven-inch casing down to the --  
2     to the heel section, or the landing point, and this is a  
3     very standard completion in this area.

4           Q.     Thank you, Mr. Gerrard.

5                   Can you please turn to Exhibit 14 and  
6     describe that exhibit?

7           A.     Exhibit 14 is just for the detail. It's  
8     showing that we've gone through the exercise with our  
9     service company, Baker Hughes, showing just a little bit  
10    more detail on the completion itself where the ports and  
11    the packers are going to be set within the horizontal  
12    section, in more detail, the very last packer inside of  
13    the casing. And then you have the liner top in the  
14    vertical section to the far left and then also being a  
15    bit more explicit where those sliding sleeves, those  
16    ports.

17          Q.     Thank you, Mr. Gerrard.

18                   Please move to Exhibit 15 and briefly  
19    describe that exhibit.

20          A.     Okay. Exhibit 15 is the actual proposed survey  
21    of the drilling of the Federal 12 and 4H, and it just  
22    shows the build section, the lateral section itself and  
23    the estimated casing point.

24          Q.     Thank you.

25          A.     Landing point. Sorry.

1 Q. Thank you.

2 Moving to Exhibit 16, Mr. Gerrard, please  
3 describe that exhibit.

4 A. So Exhibit 16 is our estimated production from  
5 this horizontal well. We're looking at an estimated 380  
6 barrels a day of oil. The gas will eventually come on  
7 at maybe four MCF. It shows it a little bit higher  
8 here. And 2,000 barrels of water a day.

9 EXAMINER EZEANYIM: Excuse me. Could you  
10 speak a little louder?

11 THE WITNESS: A little louder?

12 EXAMINER EZEANYIM: Yeah, please.

13 A. We're expecting a peak oil rate of maybe 380  
14 barrels a day; a peak water rate of about 2,000 barrels  
15 a day.

16 EXAMINER EZEANYIM: 380.

17 THE WITNESS: Yeah.

18 EXAMINER EZEANYIM: For the four units.

19 THE WITNESS: Yeah, for the horizontal  
20 well.

21 EXAMINER EZEANYIM: That's not impressive.  
22 That's 380. I want it to be 1,000 or more.

23 THE WITNESS: Well, this is what we submit  
24 when do our economics and AFE.

25 EXAMINER EZEANYIM: Okay. I mean, if there

1 is no oil, there is no oil there. So you can do an  
2 adjustment. I just want them to come on very prolific.

3 THE WITNESS: It's somewhat conservative.

4 EXAMINER EZEANYIM: Yeah. Okay.

5 Q. (BY MS. CHAPPELLE) Responsive to Hearing  
6 Examiner Ezeanyim's questioning about the proximity of  
7 the well location, I would like to add two exhibits to  
8 the packet that you have.

9 MS. CHAPPELLE: If I might approach?

10 EXAMINER BROOKS: You may.

11 Q. (BY MS. CHAPPELLE) I've labeled these two  
12 exhibits 17 and 18. Mr. Gerrard, would you please  
13 describe Exhibit 17?

14 A. Okay. Exhibit 17. What we've done is, we  
15 decided to take a look at both the initial -- the  
16 fracture stimulation [sic] that was on the vertical well  
17 and also an idea of the drainage radius that we expect  
18 on a vertical well, keeping in mind this was dual  
19 completed in the Bone Spring and the Brushy Canyon.

20 So what you're looking at here is the  
21 estimated frack radius for the initial completion, which  
22 took 42,000 pounds of sand, and then you have an  
23 estimated drainage radius, assuming that the Bone Spring  
24 does make no oil and all the oil came out of the Brushy  
25 Canyon. So it's a very conservative approach to giving

1 the largest drainage area.

2 If we were to assume a third of the  
3 production comes from the Brushy Canyon Delaware, that  
4 drainage radius would actually only be about 100 feet.  
5 So it would be less than the estimated frack radius. So  
6 if this comes into play, we'll be looking at  
7 communication between wells; if you were to fracture  
8 them, would they be talking to each other.

9 EXAMINER EZEANYIM: Can you repeat that?  
10 Repeat what you just said.

11 THE WITNESS: Okay.

12 EXAMINER EZEANYIM: And repeat it so I can  
13 hear it.

14 THE WITNESS: Okay. So the frack radius  
15 was estimated at 150 feet on the vertical well. What we  
16 did when we modeled this is, we assumed all of the oil  
17 production on a vertical well came from the Delaware.

18 EXAMINER EZEANYIM: That's your assumption.

19 THE WITNESS: Just for -- just for this  
20 purpose here, of collision between the fractures  
21 themselves, to find out the worst case. So what you're  
22 seeing here is a worst-case scenario.

23 EXAMINER EZEANYIM: Okay.

24 Q. (BY MS. CHAPPELLE) Mr. Gerrard, just to  
25 clarify, would you say that the assumptions that went



1 into this with respect to worst case are the most  
2 conservative you could use?

3 A. They are the very most conservative that can be  
4 used.

5 Q. How likely is it that this depicted worst case  
6 would actually occur?

7 A. Not very likely at all.

8 Q. So, Mr. Gerrard, please give us, as a  
9 comparison, what the likely scenario is with respect to  
10 this exhibit.

11 A. Okay. So the likely scenario is that the  
12 Delaware Formation has only got a rough radius drainage  
13 area of 100 feet from its wellbore, not to depict the  
14 245.

15 Q. And with respect to that, Mr. Gerrard, what's  
16 the likelihood of these two wells either communicating  
17 or interacting in any way?

18 A. It's not very likely at all.

19 Q. With that, I'd like to move to Exhibit 18.

20 EXAMINER EZEANYIM: What?

21 MS. CHAPPELLE: Oh. I'd like to go to  
22 Exhibit 18.

23 THE WITNESS: Sirs, was I clear with  
24 Exhibit 17?

25 EXAMINER EZEANYIM: You have to talk to the

1 Examiner. I don't know what's going on.

2 EXAMINER BROOKS: Yeah. Go ahead..

3 Proceed.

4 MS. CHAPPELLE: Thank you, sir.

5 Q. (BY MS. CHAPPELLE) Could you please describe  
6 what Exhibit 18 depicts?

7 A. Exhibit 18 is trying to depict the side profile  
8 of what we're seeing downhole on this completion system  
9 and the likelihood that the fractures would intersect  
10 with each other or the drainage, or the horizontal  
11 fractured well would interfere with the drainage radius  
12 of the vertical well. And so it's just another way of  
13 looking at it, and it's just trying to show you that the  
14 likelihood that our horizontal well will interfere with  
15 the vertical well is very, very low.

16 Q. Thank you.

17 MS. CHAPPELLE: And with that, I'd like to  
18 pass the witness with respect to questions from the  
19 Hearing Examiner.

20 EXAMINER BROOKS: Okay. Are you offering  
21 these exhibits?

22 MS. CHAPPELLE: Thank you, sir.

23 EXAMINER BROOKS: Which ones?

24 MS. CHAPPELLE: Yes, sir. With that, I  
25 offer -- I'm sorry.

1 Q. (BY MS. CHAPPELLE) Mr. Gerrard, did you  
2 prepare or supervise the preparation of exhibits marked  
3 13 through 18?

4 A. Yes, I did.

5 MS. CHAPPELLE: And with that, I tender the  
6 exhibits and the witness.

7 EXAMINER BROOKS: Okay. Exhibits 13  
8 through 18?

9 MS. CHAPPELLE: Yes, sir.

10 EXAMINER BROOKS: 13 through 18 are  
11 admitted.

12 (OXY USA Exhibit Numbers 13 through 18  
13 were offered and admitted into evidence.)

14 EXAMINER BROOKS: I have no questions.

15 Mr. Ezeanyim?

16 CROSS EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. Well, the question I have -- go back to 17.  
19 How do you determine those frack radius and drainage  
20 radius? How did you determine that? How did you  
21 determine the frack radius and the drainage radius?

22 A. Okay. So the fracture radius, what I did is, I  
23 took the existing completion from the well, and I  
24 modeled it with a frack program called StimPlan.

25 Q. Is that a kind of model?

1 MS. CHAPPELLE: Yes.

2 A. Yes.

3 Q. (BY EXAMINER EZEANYIM) What do you put into the  
4 model?

5 A. What do I put into the model?

6 Q. Yeah.

7 A. What we've done is, we get a -- we built the  
8 model based on the area itself, all the rock properties,  
9 porosities, permeabilities, as best we know them, and  
10 put that into the program itself to determine the proper  
11 frack geometry. And what our final determination is,  
12 any fracture that happens out here in the Delaware is  
13 generally round and shaped more like a penny fracture.

14 Q. So you haven't run any -- there are no  
15 fractures? You haven't done any fractures at all on  
16 the -- on the new well, right?

17 A. No.

18 Q. Okay. Yeah, because the -- see, the well will  
19 do that if you can -- because you are going to use 180  
20 [sic] pounds of propane [sic]. It would begin -- I  
21 can't ask you that because you don't know it. If I know  
22 what -- I know this is a model. I'm not familiar with  
23 that model, but, you know, I can put anything in there  
24 to make it look good. But I assume that that map is  
25 good. That's okay.

1                   What type of fractionization [sic] do you  
2   use, slick-water, gel --

3           A.   No.  No.  It's a gelled system.

4           Q.   Okay.  But do you use some -- some type of  
5   nitrogen?

6           A.   No, not at all.

7           Q.   You don't use nitrogen?

8           A.   No.

9           Q.   Okay.  You're not concerned with sublocation  
10   [sic]?

11          A.   No.

12          Q.   It's producing now, right?

13          A.   Yeah.

14          Q.   So how do you do sublocation [sic] in there?

15          A.   We have surfactant.  It's --

16          Q.   You have surfactant?

17          A.   Yes.  Yeah.

18          Q.   I mean, that's your call.  I mean, my -- my  
19   method may not be your method, but, you know, I'm  
20   just --

21          A.   Yeah.  No, but surfactant helps quite a bit in  
22   producing the broken gel.

23          Q.   Because nitrogen is very costly, right?

24          A.   Very costly, and I'd have to run simulations to  
25   see if we can pump it to this depth.

1 Q. No, no. You can do whatever you want to do.

2 I'm not telling you what to do, but I wanted to get the  
3 hydrocarbon from that --

4 A. It's a very standard completion that's been  
5 used out here for years.

6 Q. How do you get 380 barrels of oil per day? How  
7 did you get that number?

8 A. That number is coming from an --

9 Q. Offset well?

10 A. -- yeah, an array of offset wells in the area  
11 done by our reservoir engineer.

12 Q. Are your spaces [sic] bigger than that?

13 A. Pardon me?

14 Q. Bigger than 380?

15 A. Yes. In many cases, we do get more than that.  
16 Like I said, it's a conservative number.

17 Q. Okay. I assume what you did here in the model  
18 is okay to give me that separation between the wells,  
19 because that was my concern before.

20 A. Yes, sir.

21 Q. Because the wells seem to be close to each  
22 other.

23 A. Yes.

24 Q. I will take a look.

25 A. I'll be sitting in fry pan [sic] --

1 Q. What did you say?

2 A. I'll be sitting in a fry pan [sic] when we do  
3 complete this well --

4 Q. Okay. Very good.

5 A. -- and I will be watching as we get closer to  
6 the heel to see if there are any indications that we are  
7 getting into a depleted zone, and we may change and go  
8 smaller or something like that, yeah.

9 Q. Okay. I don't have anything further. Thank  
10 you.

11 EXAMINER BROOKS: Thank you.

12 Anything further, Counsel?

13 MS. CHAPPELLE: No.

14 EXAMINER BROOKS: Does that complete your  
15 presentation?

16 MS. CHAPPELLE: This completes our  
17 presentation.

18 EXAMINER BROOKS: Very good. Case Number  
19 15006 will be taken under advisement.

20 (Case Number 15006 concludes, 9:53 a.m.)

21  
22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
24 the Examiner hearing of Case No. 15006,  
25 heard by me on June 27, 2013.  
David K. Butts, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

19

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