

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

6 APPLICATION OF NEARBURG EXPLORATION
7 COMPANY, L.L.C. FOR A NONSTANDARD
8 OIL SPACING AND PRORATION UNIT,
9 UNORTHODOX OIL WELL LOCATION, AND
10 COMPULSORY POOLING, LEA COUNTY,
11 NEW MEXICO.

CASE NO. 14996

ORIGINAL

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

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

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16 June 27, 2013
17 Santa Fe, New Mexico

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
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT NEARBURG EXPLORATION COMPANY, L.L.C.:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

FOR OXY USA WTP, LP:

GERMAINE R. CHAPPELLE, ESQ.
GALLAGHER & KENNEDY, P.A.
1233 Paseo de Peralta
Santa Fe, New Mexico 87501-2758
(505) 982-9523
germaine.chappelle@gknet.com

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1 (1:35 p.m.)

2 EXAMINER BROOKS: Good afternoon, everyone.
3 Sorry I'm late.

4 We'll go back on the record and call Case
5 Number 14996, application of Nearburg Exploration
6 Company, LLC for a nonstandard spacing and proration
7 unit, an unorthodox well location, and compulsory
8 pooling, Lea County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing the Applicant. I have two
12 witnesses who are the two witnesses who testified
13 previously.

14 EXAMINER BROOKS: Okay. They've already
15 been sworn.

16 Other appearances?

17 MS. CHAPPELLE: Good afternoon. Germaine
18 Chappelle, with Gallagher & Kennedy, representing OXY.
19 I have two witnesses. One has been sworn. One was not.

20 EXAMINER BROOKS: Okay. The witness who
21 was not previously sworn, would you state your name,
22 please?

23 MR. THOMPSON: Jeffrey Thompson.

24 (Mr. Thompson sworn; Mr. Dixon, Mr. Elton
25 and Mr. Canon previously sworn.)

1 EXAMINER BROOKS: Okay. Mr. Bruce, call
2 your first witness.

3 MR. BRUCE: Call Mr. Dixon. Could the
4 record reflect Mr. Dixon was previously sworn and
5 qualified as a landman?

6 EXAMINER BROOKS: So reflects.
7 And you're reminded you're still under
8 oath.

9 Proceed.

10 KENNETH DIXON,
11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Dixon, you are familiar with the land
16 matters in this case, correct?

17 A. Yes.

18 Q. Could you identify Exhibit 1 and describe it
19 for the Examiner?

20 A. It's a Midland map, again, plat showing a well
21 we're proposing to drill, the Sapient 17 #1, at an
22 unorthodox surface location of 1,641 from the north line
23 and 1,225 feet from the east line. The bottom-hole
24 service location is 1,691 from the north line and 1,225
25 from the east line of Section 17, Township 17 South, 27

1 East, to a depth sufficient to the top 200 feet of the
2 Mississippian Formation.

3 Q. And you seek approval of an unorthodox location
4 and a nonstandard unit in the Strawn Formation in the
5 south half-northeast of 17, correct?

6 A. Correct.

7 Q. And, again, what is the primary target for this
8 well?

9 A. The primary target is a Strawn Formation, and
10 it will be a vertical well.

11 Q. Now, the surface location is slightly different
12 from the bottom-hole location. What is the reason for
13 that?

14 A. There are some surface issues.

15 Q. And what is the spacing in the Strawn
16 Formation?

17 A. It is spaced on 40s, with wells that will be no
18 closer than 330 feet to a quarter-quarter section line,
19 and the nearest pool is the South Midway Strawn pool.

20 Q. And by the way, you did speak with the Hobbs
21 District Office of the OCD regarding which pool they
22 would place it in, correct?

23 A. Yes, I did.

24 Q. And they said it would be the South Midway
25 Strawn?

1 A. Yes.

2 Q. And, again, does Nearburg have a technical
3 witness to discuss the reason for the nonstandard unit
4 and unorthodox location?

5 A. Yes, we do, but the basic reason is that the
6 well will drain both quarter-quarter sections in the
7 well unit.

8 Q. Could you identify Exhibit 2 and discuss the
9 working interest owners within the proposed well
10 agreement?

11 A. In the well unit, Nearburg will have 79.16666
12 percent working interest, and OXY USA West Texas
13 Property, LP will have the balance, being 23.33333
14 percent.

15 Q. And where is OXY's -- in which quarter-quarter
16 section is OXY's interest?

17 A. In the southeast of the northeast.

18 Q. Okay. And it is an unleased mineral interest?

19 A. Yes, it is.

20 Q. Nearburg's interests are all subject to oil and
21 gas leases?

22 A. Yes, and one term assignment.

23 Q. And one term assignment.

24 And is OXY the only person sought to be
25 pooled in this case?

1 A. Yes.

2 Q. What is Exhibit 3?

3 A. Exhibit 3 is a representation of my contacts
4 with the parties, and there is also a copy of the well
5 proposal we sent out on April 30th. And my initial
6 contact with OXY is shown last. It was a letter dated
7 February 21st, 2013, to OXY requesting an oil and gas
8 lease.

9 Q. Are you still, at this point, attempting and
10 hoping to reach a voluntary agreement with OXY?

11 A. Yes.

12 Q. Are there any unlocatable owners?

13 A. No.

14 Q. Now, on the first page of Exhibit 3, you do
15 discuss contacts with OXY. Besides the two proposal
16 letters, have you had telephone conferences and e-mails
17 with OXY?

18 A. Several of both.

19 Q. And those contacts continued through this week;
20 did they not?

21 A. Yes.

22 Q. In your opinion, has Nearburg made a good-faith
23 effort to obtain the voluntary joinder of OXY in this
24 well proposal?

25 A. Yes.

1 Q. Will you continue to work with them after this
2 hearing?

3 A. Yes.

4 Q. And if you reach an agreement with OXY, will
5 you notify the Division?

6 A. Yes, I will.

7 Q. Could you identify Exhibit 4 for the Examiner,
8 and discuss the cost of the proposed well?

9 A. Exhibit 4 is our proposed AFE, and it
10 reflects -- let me make sure I've got these right;
11 yeah -- a dry-hole cost of \$2,874,814 and a completed
12 well cost of \$3,887,129.

13 Q. And are these costs in line with the costs of
14 other wells drilled at this depth in this area of
15 New Mexico?

16 A. Yes.

17 Q. Who do you request be the operator of the well?

18 A. Nearburg Producing Company.

19 Q. And what is your recommendation for the
20 supervision of overhead rates?

21 A. \$7,000 a month for drilling and \$700 a month
22 for producing.

23 Q. And are these amounts equivalent to those
24 normally charged by Nearburg and other operators in this
25 area for wells at this depth?

1 A. Yes.

2 Q. And do you request that the rates be
3 periodically adjusted under the COPAS accounting
4 procedure?

5 A. Yes.

6 Q. Does Nearburg request a maximum cost plus
7 200-percent risk charge if OXY goes nonconsent in the
8 well?

9 A. Yes.

10 Q. And was OXY notified of this hearing?

11 A. Yes.

12 Q. And is that reflected in the Affidavit of
13 Notice submitted as Exhibit 5?

14 A. Yes.

15 Q. Exhibit 5 was also sent to Chevron U.S.A. and
16 Chesapeake Energy. What is the status of those letters?

17 A. We had taken an oil and gas lease from
18 Chesapeake Royalty, LLC, I think the title is, and we've
19 taken a term assignment from Chevron.

20 Q. Were Exhibits 1 through 5 prepared by you or
21 under your supervision or compiled from company business
22 records?

23 A. They were compiled by me or under my
24 supervision, yes.

25 Q. In your opinion, will the granting of this

1 application prevent waste and protect correlative
2 rights?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I'd move the
5 admission of Exhibits 1 through 5.

6 EXAMINER BROOKS: 1 through 5 are admitted.
7 (Nearburg Exhibit Numbers 1 through 5 were
8 offered and admitted into evidence.)

9 MR. BRUCE: And I pass the witness.

10 EXAMINER BROOKS: Ms. Chappelle?

11 MS. CHAPPELLE: Yes, I do have a few
12 questions. Thank you.

13 CROSS-EXAMINATION

14 BY MS. CHAPPELLE:

15 Q. With respect to the negotiations with Chevron,
16 you indicated that you have given them an assignment; is
17 that correct?

18 A. Chevron has granted us a term assignment.

19 Q. Have you offered those same or similar terms to
20 OXY?

21 A. Well, OXY has an unleased mineral interest.
22 I'm trying to get an oil and gas lease. But, basically,
23 the acreage bonus and the term are basically the same.
24 The oil and gas lease has different provisions than the
25 term assignment, but it's all real similar.

1 Q. So with respect to the statement you made
2 earlier that the well will drain both sections, is it
3 necessary for one well to drain both sections, or is
4 that more of a convenience?

5 A. Well, I'm going to have to pass that on to the
6 geologist. I'm a landman. I deal with the oil and gas
7 leases and the mineral interests.

8 MS. CHAPPELLE: Nothing further.

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. I didn't get -- was your overhead the same here
12 as on the last one?

13 A. Yes, sir.

14 Q. That was 7,000 and 700?

15 A. Yes, sir.

16 Q. And I think that's all I have.

17 EXAMINER BROOKS: Mr. Ezeanyim?

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. I don't have anything, but who is NEX?

21 A. N-E-X, Nearburg Exploration Company.

22 Q. What is Nearburg Producing Company?

23 A. Nearburg Producing Company is the parent
24 company, and Nearburg Exploration Company, LLC is a
25 subsidiary.

1 Q. So the same thing?

2 A. Same thing, yes, sir.

3 Q. Nothing further.

4 EXAMINER BROOKS: Call your next witness.

5 MR. BRUCE: Again, if the record could
6 reflect that Mr. Elton was previously sworn and
7 qualified.

8 EXAMINER BROOKS: It so reflects.

9 BILL ELTON,

10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Elton, does your area of responsibility at
15 Nearburg include this portion of southeast New Mexico?

16 A. Yes, it does.

17 Q. And you're familiar with the geology involved
18 with this application?

19 A. Yes, I am.

20 Q. Could you identify Exhibit 6 for the Examiner?

21 A. Exhibit 6 is a locator map that covers portions
22 of 17 South, 37 East, Lea County, New Mexico. Again, as
23 we saw this morning, it shows a number of Strawn pools
24 relative to our spacing proration unit for the Sapiant
25 17 1 well. And, again, the green outlines are fields

1 that either produce or have produced from similar Strawn
2 reservoirs in terms of their depth and areal extent.

3 Q. And as Mr. Dixon said, the South Midway Strawn
4 is spaced on 40s, correct?

5 A. That's correct.

6 Q. And correct me if I'm wrong, are the pools to
7 the north, at least the Shipp Strawn, spaced on 80
8 acres?

9 A. I believe those are also 40 acres. I have to
10 double-check, but I believe they are.

11 MR. BRUCE: Well, I'll double-check. There
12 are a number of pools out in this area that are spaced
13 on 80 acres.

14 EXAMINER BROOKS: Okay. And this is the
15 South Midway Strawn?

16 MR. BRUCE: Yeah, this pool is the South
17 Midway Strawn.

18 EXAMINER BROOKS: Okay. Well, I have no
19 idea what the spacing is.

20 MR. BRUCE: You know, what's old is new,
21 again. Twenty-five years ago, I spent a lot of time in
22 this area on these pools.

23 Q. (BY MR. BRUCE) Let's move on to Exhibit 7,
24 Mr. Elton. What does that reflect?

25 A. Exhibit 7 is a Strawn isopach map, and the map

1 is then down to the northeast quarter of Section 17.
2 Again, the red outline, the south half of the northeast
3 quarter, is our proposed spacing and proration unit.
4 It's a Strawn isopach map. The contour interval is ten
5 feet. It's based on seismic controls. It shows the
6 areal extent of this particular Strawn reservoir. We
7 need an 80-acre unit because the reservoir lies beneath
8 both quarter-quarter sections almost equally.

9 And in addition, we need an unorthodox
10 location because our preferred location, based on
11 testing of the thickest portion of this Strawn
12 reservoir, lies closer than the 330 from the
13 quarter-quarter section line.

14 Q. And the proposed bottom-hole location for this
15 well will only be about 100 feet or less from the center
16 of this proposed well unit?

17 A. That's correct.

18 Q. Centerline of this proposed --

19 A. Centerline.

20 Q. And, again, is it important, when drilling the
21 Strawn wells, to test -- to have the well location in
22 the thickest part of the Strawn?

23 A. Yes, we believe that is the case.

24 Q. In your opinion, will each quarter-quarter
25 section in the proposed well unit contribute to

1 production?

2 A. Yes, it did [sic].

3 Q. What is Exhibit 8?

4 A. Exhibit 8 is a type log from this area. It's
5 on the Shipp State #1 well in the southeast quarter of
6 17. It basically shows the reservoir depth of the
7 Strawn by 11,000 feet, overall thickness about 200, and
8 nice porosities in the middle of the overall Strawn
9 section.

10 Q. And was that Shipp #1 well productive in the
11 Strawn?

12 A. Yes, it was. It was -- it was -- I mean, it
13 made less than 10,000 barrels.

14 Q. So, again, that would emphasize that you really
15 need to hit the thickest part where the best reservoir
16 is?

17 A. Yes, but it was a smaller buildup.

18 Q. Smaller buildup?

19 A. Uh-huh.

20 Q. Than you hope to see in this well?

21 A. Correct.

22 Q. Let's discuss a little bit why you think --
23 besides -- just the location of the well, in your
24 opinion, if you make a decent well, would indicate to
25 you that it would drain reserves from both

1 quarter-quarter sections, correct?

2 A. Right.

3 Q. But what about other wells in the area? If you
4 could identify Exhibits 9 and 10 and discuss why you
5 think -- why Nearburg thinks that the proposed well will
6 drain more than 40 acres?

7 A. Well, if you look at Exhibit 9, which is in
8 Section 14, it's a couple miles east of here. Again,
9 it's a Strawn gross interval isopach, and, you know,
10 what it shows is that there are several wells drilled in
11 the southeast quarter that were fairly thick wells. The
12 cums are posted on the map. They were effectively
13 drilled on 80-acre spacing. These wells were drilled in
14 the '80s and early '90s.

15 And I would point you to the red arrow,
16 which is actually a Nearburg well drilled before my
17 tenure with the company, the New York #1. We drilled
18 that well attempting to get into an attic location, and
19 we found a porous Strawn section. We tested it. The
20 well was depleted. So this exhibit was to basically
21 show the connectivity, the extent of reservoir quality
22 within the Strawn across a fairly good-size area.

23 Q. So it was just based on the geology alone. You
24 would have expected the New York #1 to be productive
25 from the Strawn?

1 A. We would have expected it, yes.

2 Q. But it had been drained by the other wells in
3 this particular section of the well?

4 A. They were connected to it.

5 Q. What about Exhibit 10?

6 A. Exhibit 10 is in Section 20. It's the same
7 section as our West Lovington proposal that you saw this
8 morning. Nearburg re-entered an old Devonian well there
9 in the center of the southeast quarter of 20. We
10 directionally drilled it over to that bottom-hole
11 location indicated by the red arrow, and we completed
12 the well there. The well made approximately 450,000
13 barrels at that bottom-hole location.

14 We went back -- our engineers went back and
15 looked at the drainage area, provided metrics, and that
16 well drained somewhere on the order of 60 to 70 acres.
17 So these wells can drain, you know, 40 or more acres.

18 Q. And if you hit the right undrained portion of
19 the reservoir, the well's going to be prolific?

20 A. Very prolific.

21 Q. Were Exhibits 6 through 10 prepared by you or
22 under your direction?

23 A. Yes, they were.

24 Q. And in your opinion, will the granting of this
25 application prevent waste and protect correlative

1 rights?

2 A. Yes, it will.

3 MR. BRUCE: Mr. Examiner, I'd move the
4 admission of Exhibits 6 through 10.

5 EXAMINER BROOKS: 6 through 10 are
6 admitted.

7 (Nearburg Exhibit Numbers 6 through 10
8 were offered and admitted into evidence.)

9 MR. BRUCE: And I pass the witness.

10 EXAMINER BROOKS: Ms. Chappelle?

11 CROSS-EXAMINATION

12 BY MS. CHAPPELLE:

13 Q. Just as a threshold question, is it possible
14 for wells to be placed in each 40-acre unit, or is it
15 possible only to have one 80-acre unit?

16 A. I'm not sure what you mean by possible. It is
17 possible to place a well in each 40. However, the size
18 of this feature being somewhere between 30 and 40 acres,
19 it would be wasteful to drill two wells at our well cost
20 to produce this reservoir.

21 Q. And is that based on your analysis pursuant to
22 Exhibit Number 1? I'm sorry. What exhibit is this? 7.
23 Sorry.

24 A. Well, yes. I mean, Number 7 shows the -- you
25 know, our mapped extent of this reservoir in the south

1 half of the northeast quarter of 17, and the reservoir
2 lies in both 40-acre units.

3 Q. And with respect to Exhibit 7, does the
4 thickness mean that there is only one pay zone? Does
5 the thickness indicate there is only one pay zone?

6 A. Only one what?

7 Q. Pay zone.

8 A. Based upon the well control in this area, you
9 generally see just one pay zone. There are wells in the
10 overall Lovington Strawn area that have one or more pay
11 zones, but over here to the west, generally you
12 encounter one pay zone.

13 Q. Moving now to Exhibit 8, given the Strawn
14 interval -- between the Strawn and the Atoka interval,
15 is the objective only found near the base of the Strawn?

16 A. Again, in the fields to the west, like Midway
17 and some of the control wells down here (indicating), it
18 is more in the middle. As you go over to the east, it's
19 at the top.

20 Q. Can other pay zones exist higher in the Strawn?

21 A. They could.

22 Q. Is it possible to have more than one pay zone
23 in a well?

24 A. Possible, but generally there's not multiple
25 pay zones.

1 Q. And can those pay zones have different areal
2 extents?

3 A. I suppose they could.

4 MS. CHAPPELLE: We have no further
5 questions of this witness.

6 CROSS-EXAMINATION

7 BY EXAMINER BROOKS:

8 Q. Okay. Well, I forgot to ask this question
9 exactly this way in the previous case, although I think
10 the substance was more or less covered. Will this 80
11 acres be -- in your opinion, will the reserves
12 underlying this 80 acres in the subject formation be
13 efficiently and economically produced by one proposed
14 well?

15 A. Yes, that's our opinion, that it will be.

16 Q. Thank you.

17 EXAMINER BROOKS: Mr. Ezeanyim?

18 EXAMINER EZEANYIM: So be it.

19 Well, anyway, I mean, the same -- whose
20 case is this? Is it Nearburg?

21 MR. BRUCE: Nearburg Exploration.

22 EXAMINER EZEANYIM: Nearburg. Is that the
23 case we had the other time, same issue here about
24 drainage with those 80 acres?

25 MR. BRUCE: Oh. No. That was CML

1 Exploration earlier.

2 EXAMINER EZEANYIM: This is a different
3 case, but it's CML, isn't it?

4 MR. BRUCE: Excuse me?

5 THE WITNESS: I didn't testify for CML.

6 EXAMINER EZEANYIM: Oh, I'm sorry.

7 MR. BRUCE: Unless he's moonlighting,
8 Mr. Ezeanyim.

9 (Laughter.)

10 CROSS-EXAMINATION

11 BY EXAMINER EZEANYIM:

12 Q. You mentioned 200 feet into the Mississippian.

13 A. Oh, into the Mississippian?

14 Q. Yeah, 200 feet. What do you mean by that?

15 A. Well, right below the Strawn is the Atoka
16 section, and there are a few wells in 17-37 that have
17 produced from the Atoka. So if you're going to drill a
18 well 11,000 feet, you're talking about going through the
19 Atoka. And the only way that you know conclusively
20 you're through the Atoka is to top the Mississippian.
21 So it's not a Mississippian test.

22 Q. Yeah. Okay. The pool is still inside the
23 South Midway Strawn?

24 MR. BRUCE: It's the South Midway Strawn.

25 A. Yeah, South Midway Strawn.

1 Q. (BY EXAMINER EZEANYIM) And then is there a unit
2 at -- offset wells drainage at the wells -- the one well
3 will drain the 80 acres. Then it's -- then it's
4 probably done in that -- you know, like, you can do a
5 calculation of offset wells and see how much they're
6 draining, and you might conclude from that that this
7 well will do the same?

8 A. Well, I think that's what we're trying to
9 demonstrate with the last exhibit there, Exhibit 10,
10 that based upon, you know, the calculation of the
11 drainage area from the Kimbrough well, you can drain up
12 to 60, 70 acres.

13 Q. You can drill up to what?

14 A. Up to 60, 70 acres. You know, our feature is
15 only 30 to 40 acres in size. We feel very comfortable
16 one well will drain that.

17 Q. No further questions.

18 EXAMINER BROOKS: I have nothing further.

19 MR. BRUCE: I have nothing further.

20 EXAMINER BROOKS: Very good. The witness
21 may step down.

22 Does that conclude your case, Mr. Bruce?

23 MR. BRUCE: Yes, sir.

24 EXAMINER BROOKS: Ms. Chappelle?

25 MS. CHAPPELLE: Yes. I'd like to call my

1 first witness, Mr. Canon, and I'd like to pass out our
2 exhibits so you have them for reference.

3 May I approach?

4 EXAMINER BROOKS: Okay.

5 MS. CHAPPELLE: Opposing counsel already
6 has them.

7 CHRISTOPHER CANON,
8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MS. CHAPPELLE:

12 Q. Good afternoon, Mr. Canon. You were previously
13 sworn as an expert; is that correct?

14 A. Yes.

15 Q. And so you're still under oath.

16 MS. CHAPPELLE: I'd like to tender the
17 witness for questions.

18 EXAMINER BROOKS: As I recall, he was
19 questioned as a fact witness in the previous case, not
20 as an expert.

21 MS. CHAPPELLE: In the beginning this
22 morning, I tendered him as an expert witness in our
23 first case.

24 EXAMINER BROOKS: Oh, not in -- not in the
25 last Nearburg case?

1 MS. CHAPPELLE: Correct.

2 EXAMINER BROOKS: Okay. Very good. You
3 may proceed.

4 Q. (BY MS. CHAPPELLE) Mr. Canon, can you please
5 turn to Exhibit 1 and just briefly discuss the purpose
6 of this exhibit?

7 A. Exhibit 1, again, is just an extended map
8 view -- or an overview of the area where the Sapient #1
9 well, which is the well at issue, relevant to the
10 townships.

11 Q. And turning now to Exhibit 2, can you walk us
12 through the effect of the proposed well in this case and
13 OXY's interest?

14 A. Yes. This is -- Exhibit 2 is essentially a
15 breakdown at the time that we had -- based off the
16 information that we had at the time of well proposal of
17 the working interests across each individual tract,
18 40-acre tract, the southwest of the northeast quarter
19 and the south -- excuse me -- the south -- the
20 southeast-northeast and southwest-northeast. And that's
21 a typo, and I apologize about that.

22 But basically it shows that OXY has zero
23 percent working interest in the western 40-acre tract,
24 and 41.67 percent, for a combined 28.83 percent working
25 interest, based, again, off the well proposal we were

1 provided across the 80-acre combined tract.

2 Q. Thank you, Mr. Canon.

3 Moving now to Exhibit 3, please walk us
4 through this exhibit.

5 A. This, again, is just this is just broken into
6 table form. What it is is what I just explained,
7 essentially just a breakdown tract by tract and
8 cumulative as to the proposed 80-acre spacing unit.

9 Q. Now, with respect to Exhibit 4, this appears to
10 be a negotiation timeline. Can you please walk us
11 through the negotiations that OXY has had with Nearburg
12 with respect to this particular well?

13 A. Yes. So we first received an offer to lease
14 back in late February from Nearburg. We said -- we
15 responded at the time that we're not ready to engage in
16 any discussions on that.

17 On April 14th, we received an AFE from
18 Nearburg on both this well and the well that was the
19 subject of the previous hearing, the West Lovington 20
20 #1 well.

21 On the 28th -- on May 28th, we received our
22 notice of forced pooling, at which time shortly
23 thereafter, we got -- we had negotiated, to a degree,
24 along with Nearburg a form of participation agreement.

25 I'd like to also point out that at the time

1 we received the AFE, we also received an offer to lease
2 at a one-quarter royalty and \$250 per net mineral acre,
3 and we were still in the process of evaluation; but we
4 were not willing to lease at that time. That's what
5 stemmed discussions as far as potential participation
6 agreement between the two companies.

7 Subsequent to that, as part of the
8 participation agreement, we were offered one-sixth
9 royalty and other terms to lease 50 percent of our
10 interest in the Sapient 17 #1 well.

11 On the 7th of this past month, we sent in
12 our signed AFE, electing to participate in the West
13 Lovington well, and subsequently, as per the last
14 hearing, we've been finalizing that JOA. So that kind
15 of brings us up-to-date, roughly, to where we are now.

16 Q. When Nearburg first offered to lease, did OXY
17 request to see a well proposal?

18 A. No, we did not. Not to my knowledge, we did
19 not.

20 EXAMINER EZEANYIM: Excuse me. There is a
21 silence, so let me say something.

22 If you elect to participate in drilling the
23 well, why are we here then? I mean, look at the
24 timeline. You signed the AFE, and the JOA was sent to
25 you, which you are going to sign. What are we doing

1 now?

2 THE WITNESS: We have yet -- we have not
3 participated in this well yet, and the reason that we
4 have not participated in this well is because we are
5 still hoping to find out what it is -- what the results
6 are of the first well, West Lovington 20 well, before we
7 make a determination on whether or not we think that our
8 interest would -- would -- a profitable well would be
9 drilled based on an 80-acre spacing.

10 EXAMINER EZEANYIM: Okay. Let me see. I
11 know you want to jump in, Mr. Bruce.

12 It bothers me that you signed an AFE,
13 although the AFE is not a JOA. You haven't signed the
14 JOA, right, because you are still trying to look at data
15 to see --

16 THE WITNESS: Yes, sir. That's on the West
17 Lovington well. We received two proposals at once.
18 That was the previous hearing. And we signed that AFE,
19 and we're finalizing that JOA. The reason we bring that
20 well up is because the two were essentially received at
21 the same time, and they've been part of the same
22 negotiation of participation agreement.

23 EXAMINER EZEANYIM: Okay. That's what I'm
24 saying.

25 THE WITNESS: That's the sole reason.

1 And I would like to backtrack if at all
2 possible. We did, in fact, receive -- or excuse me --
3 request we see an AFE at the time we were offered to
4 lease by Nearburg back in February. So I stand
5 corrected on that.

6 EXAMINER EZEANYIM: But you wouldn't oppose
7 the drilling of this well. The objective only thing
8 you're going to do is see what data, which I don't know
9 how you are going to see that before you make an
10 election. But if you don't participate in the well, you
11 go nonconsent or don't participate in the well, right?

12 THE WITNESS: Yes. And, additionally, our
13 interest would be combined with our offsetting acreage,
14 and essentially our interest in the well would be
15 spread.

16 EXAMINER EZEANYIM: In that case, we can go
17 for that, because if you agree to participate in the
18 well, then I don't think there is anything to say.

19 THE WITNESS: Okay.

20 EXAMINER EZEANYIM: But if you are not,
21 then we can proceed.

22 Q. (BY MS. CHAPPELLE) So, Mr. Canon, with respect
23 to negotiations between OXY and Nearburg, at any time,
24 did Nearburg communicate to OXY that they themselves
25 were potentially waiting to see how the first well

1 produced before they were going to drill the second
2 well?

3 A. Yes. That subject came up and was, again, part
4 and parcel of our participation agreement that we had,
5 in structure, been e-mailed from Nearburg what their
6 counteroffer was, and we were trying to come to
7 agreement on. But one of the essential terms of that
8 was -- or one of the essential principles of that
9 agreement was the results of the West Lovington 20.

10 Q. Subsequent to our pre-hearing statement in
11 which we addressed that concern filed a few weeks ago,
12 has OXY received communication from Nearburg indicating
13 their understanding why we wouldn't want to be forced
14 pooled until we understood how the first well is going
15 to produce?

16 A. Yes, we have indicated that to them.

17 Q. And has Nearburg indicated their understanding
18 back to us with respect to --

19 A. They have acknowledged the same thing as well,
20 yes.

21 Q. Has OXY requested additional information
22 underlying Nearburg's analysis, and what's the status of
23 that request for information?

24 A. I'm sorry, can you repeat that?

25 Q. Sure. I believe that one of the experts

1 indicated a reliance on 3D seismic. What extent has OXY
2 requested that particular information, and what role
3 does that play in OXY's ultimate decision?

4 A. Well, as of right now, in the course of our
5 evaluation -- you know, I'm here as an expert for land,
6 but I do know that in order for us to proceed with any
7 further negotiations as far as any agreements as to the
8 land goes, we -- we need -- we need the tools at our
9 disposal in order to be able to make the best evaluation
10 of the well as possible. And based off of that, you
11 know, our technical crew is able to indicate to me, as a
12 landman, how we proceed with our negotiations.

13 As of right now, we're only capable of
14 negotiating terms of any potential lease or other
15 participation agreement based off knowledge that does
16 not include any seismic data, and that leaves us at a
17 significant disadvantage.

18 Q. And is that a particular concern in a situation
19 where OXY's interest is essentially reduced by 50
20 percent?

21 A. Yes, that's a great concern to us.

22 Q. And also of concern and note that potentially
23 two wells may drain more acreage than one?

24 A. Yes.

25 Q. With respect to the 3D seismic, please walk us

1 through, first, Nearburg's counter to that, and second,
2 OXY's request and offer to actually purchase that
3 through the third-party offering.

4 A. As of right now, the lease offer that has been
5 made to us is to lease one-half of our interest in order
6 to view a presentation of the seismic data underlying
7 the proposed Sapient #17 well. That would be a
8 one-sixth royalty for a one-year term.

9 Q. Just to clarify, Mr. Canon --

10 A. Yes.

11 Q. -- can you go back and compare, again, the
12 first offer and the second offer, what impact --

13 A. The initial offer was a one-quarter royalty for
14 a two-year lease, \$250 an acre.

15 Q. And so all that changed was your request to
16 look at the 3D seismic data?

17 A. What changed was our request to look at the 3D
18 seismic data, and -- and then, I guess, the amount of
19 our acreage that they were wanting to lease and
20 decrease. But that was also part of the -- that would
21 be essentially payment or the exchange for us to be able
22 to view the seismic data.

23 Q. To your knowledge, does Nearburg offer in the
24 market access to their 3D seismic?

25 A. No. Do they offer into the market?

1 Q. Yes, for purchase.

2 A. I believe they do. I honestly -- yes, I
3 believe so.

4 Q. And to your knowledge, has OXY inquired and
5 pursued potential purchase within that market of the 3D
6 seismic data?

7 A. Yes, we have pursued a license to view that
8 seismic data. We have definitely done that. As to
9 whether they market it to other people, I'm not sure.

10 Q. So conversation is ongoing with respect to
11 that?

12 A. Yes. The conversation has been ongoing as to
13 whether or not we would have access to that data by
14 license or otherwise.

15 Q. Thank you, Mr. Canon.

16 Turn now to Exhibit 5. Can you please walk
17 us through that?

18 A. Okay. So this is -- this is essentially under
19 what would be normal 40-acre spacing, where the location
20 of their well would be. And essentially what I'm doing
21 here is, I'm pointing out that the 80-acre spacing
22 request goes part and parcel, again, with the forced
23 pooling, as it normally does. But you can't approve
24 this 80 acres because it already, in and of itself, is
25 violating state setback rules. So there is the issue

1 with that.

2 Previously, I'd also like to point out,
3 that in Case Number 11201, back in 19- -- excuse me --
4 originally opened in 1994 and re-opened in February
5 1997, there was 80-acre spacing that was granted on a
6 temporary basis to the South Midway Strawn pool.

7 After that initial well was drilled in
8 Section 20, on re-addressing 11201, whether to make the
9 80 acre temporary spacing permanent field rules, there
10 was no -- there were no appearances on the revisitation.
11 So those rules were rescinded, and they resumed back to
12 the 40-acre spacing.

13 Q. So essentially what you're saying is, this is
14 the second time this particular nonstandard unit is
15 being looked at: The first go-around, it was rescinded.

16 A. Yes.

17 MS. CHAPPELLE: I have nothing further for
18 this witness.

19 CROSS-EXAMINATION

20 BY EXAMINER BROOKS:

21 Q. I'm not following everything here, but let me
22 make sure. OXY did not sign an AFE for the Sapient 17
23 well, correct?

24 A. No, sir, we have not signed an AFE.

25 Q. Where you refer to the AFE on the timeline,

1 that's the AFE for the West Lovington 20 well?

2 A. That's correct.

3 Q. And, basically, your concern is, you want more
4 information -- you want to get it -- you want to see
5 what happens with the West Lovington before you have to
6 make an election?

7 A. Yes, sir, because -- and, again, I'm not -- I
8 can't speak from a technical perspective, but,
9 essentially, we're unsure whether or not this area can
10 drain on 80 acres. And we'd like to see how the 40-acre
11 well does before we are forced to make a decision based
12 off of 80 acres that's going to decrease our interest.

13 Q. Of course, so far as the location is concerned,
14 if the Division were to create an 80-acre unit, then the
15 location would not be nonstandard, because it would
16 be -- well, yeah, it still would be because -- I don't
17 remember how, though.

18 MR. BRUCE: It would still be because it's
19 not a horizontal well.

20 EXAMINER BROOKS: Yeah. I don't remember
21 exactly how the rules are worded. I believe they say
22 30, 30 [sic] quarter section line from the unit
23 boundary.

24 MR. BRUCE: Correct.

25 EXAMINER BROOKS: So it would still be

1 nonstandard.

2 MR. BRUCE: That's correct.

3 EXAMINER BROOKS: That's what I was
4 thinking.

5 I believe that's all I have.

6 CROSS-EXAMINATION

7 BY EXAMINER EZEANYIM:

8 Q. I would like you to address the question that
9 has risen up here, because maybe I don't understand it.
10 Before an operator makes an election whether to
11 participate or not -- I mean, do we need to drill the
12 well before they make an election or not? You know -- I
13 mean, I'm going to be fair here.

14 If you told me, I'm going to have -- if
15 life was easy like that, man, I don't have to do
16 anything. If I know what the interest rate is going to
17 be tomorrow, I would be rich. So if you want to know
18 the high point -- and you can correct me if I'm wrong.
19 I thought that if you risk -- and that's almost a
20 200-percent risk.

21 A. I agree.

22 Q. So in that case, I don't know whether it's
23 going to be -- I don't know how to participate in the
24 well -- how you determine to participate or not. Then I
25 would like you to -- if you would like to participate or

1 not.

2 A. I think the reason why that is -- that is
3 brought up as a part of this hearing is because we want
4 to at least show to some degree that, I think, there is
5 a level of uncertainty, not just with us, who do not
6 have access to the seismic data, but also to Nearburg,
7 who does have access to the seismic data. And even
8 they're waiting to see the results of the initial well
9 before they proceed with the second well based on
10 80-acre spacing.

11 Q. Even before that initial well is drilled, there
12 is a lot of risk involved in drilling.

13 A. Uh-huh. I agree.

14 Q. And somebody has to drill it --

15 A. I agree.

16 Q. -- based on whatever you guys do with the
17 offsets. And if that is the case, then I don't think
18 there is any operator who would take the challenge of
19 drilling that well, that if it is no-show, then
20 everybody runs away. I mean, there is the possibility
21 of risk. I mean, I have been waiting for someone to
22 address that issue, but I'm not hearing anything.

23 What we need now is to be saying that,
24 well, an operator drill a well if he's going to be
25 participating, if not and don't participate. I think

1 people partake in drilling of the well and bear the risk
2 together, or you go nonconsent and pay a 300-percent
3 penalty.

4 A. I think our goal right now is -- and the issue
5 that we have with the situation we're being placed in
6 today is that after this hearing and after the order is
7 issued, we will have 30 days to respond. As of right
8 now, the initial well, the West Lovington, isn't going
9 to, I believe, be spudding -- and I could be wrong
10 here -- for 90 days from around this date. So by the
11 time even after our 30 days to further elect to
12 participate after the forced pooling order is issued, we
13 still are going to be acting without full knowledge of
14 whether or not we even have a decent well here.

15 And what we would like, what our
16 opportunity today is is to create additional time for us
17 to be able to see how the well does so that we make an
18 informed decision.

19 Q. Okay.

20 EXAMINER BROOKS: Mr. Bruce?

21 MR. BRUCE: First of all, I do have a
22 couple of quick questions for Mr. Canon.

23 EXAMINER BROOKS: Okay. Go ahead.

24 MR. BRUCE: And then I do have something
25 that also Mr. Dixon can address, but it's a short

1 statement.

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Canon, just to clarify one thing, when
5 Mr. Ezeanyim was questioning you on your Exhibit 4, the
6 timeline here, your final two entries regarding the
7 signing the AFE and then the JOA, those pertain to the
8 prior case, the West Lovington 20 #1 well?

9 A. Yes, sir, they do. They do. And I apologize
10 for the confusion on that.

11 Q. And Nearburg has informed OXY that it's going
12 to drill the West Lovington 20 #1 well first?

13 A. Yes.

14 Q. Are you aware -- and I can get Mr. Dixon to
15 state this -- that Nearburg has informed OXY that it
16 will not commence the well -- the Sapient well until
17 approximately 90 days after the first well is being
18 drilled?

19 A. My understanding right now is that -- my only
20 understanding is, as of right now, with the information
21 that I have and the evaluation we've done, is that
22 generally speaking, Nearburg would be waiting on the
23 results of the West Lovington 20 before proceeding with
24 the Sapient well.

25 MR. BRUCE: And, Mr. Examiner, it is not --

1 and Mr. Dixon can confirm this. It is not Nearburg's
2 intent to get two pooling orders and AFE OXY right away.
3 In other words, it will -- if they don't sign a JOA on
4 the first well, it is their intent to wait until after
5 that first well is drilled before AFEing OXY on the
6 second well. So OXY will not be getting two AFEs at the
7 same time and having to make two elections.

8 EXAMINER BROOKS: However, under the
9 general form of pooling order that we use, there would
10 be nothing to prevent that.

11 MR. BRUCE: But we don't object --

12 EXAMINER BROOKS: In fact, the way we do
13 things today, it just says after the order is entered,
14 they will --

15 MR. BRUCE: And I could provide some
16 language to Ms. Chappelle and you, if that's acceptable,
17 because it's not the intent to place OXY in a rush
18 situation on the second well.

19 EXAMINER BROOKS: Yeah. Okay. Very good.

20 MR. BRUCE: But I do have just a couple
21 other things.

22 Q. (BY MR. BRUCE) You said OXY is pursuing
23 obtaining the seismic?

24 A. Yes.

25 Q. Some seismic from somewhere?

1 A. Yes.

2 Q. And seismic is valuable?

3 A. Yes. There is money spent on it.

4 Q. And so the first lease offer was what, for
5 one-quarter royalty, but if you participate in part of
6 your benefit by seeing Nearburg's seismic, that would,
7 again, benefit, seeing the seismic that Nearburg has?

8 A. Yes, it would be.

9 Q. And just one final question just for my own
10 information. Has OXY determined at this time, insofar
11 as the Sapient well goes, whether if it participates, it
12 would participate for full interest or partly, part of
13 its interest and lease part of its interest?

14 A. We haven't made that determination yet. We
15 need to see the seismic data.

16 And one other thing I'd like to point out
17 as it relates to the seismic data, I think that it would
18 be difficult for us to determine at this time whether
19 the seismic data is -- and the value -- additional value
20 given by Nearburg to OXY would be the equivalent of the
21 difference between one-quarter royalty and one-sixth
22 royalty.

23 Q. But in general terms, seismic tends to be
24 valuable --

25 A. Certainly it does. We just don't know whether

1 it's worth the difference between one-quarter and
2 one-sixth.

3 Q. And on the West Lovington 20 #1 well, OXY had
4 its own seismic?

5 A. No, we did not. I don't believe we did.

6 Q. So you're participating without seismic on that
7 one?

8 A. Yes, we are.

9 MR. BRUCE: That's all I have,
10 Mr. Examiner.

11 EXAMINER BROOKS: Okay. If I may, I would
12 like to ask you some questions, Mr. Bruce.

13 MR. BRUCE: Yes.

14 EXAMINER BROOKS: First, just to clarify
15 what you said a moment ago, are you representing to us
16 that Nearburg would not object to the Division putting a
17 provision in the compulsory pooling order in this case,
18 the Sapient case, to the effect that OXY would not be
19 required to make an election under the compulsory
20 pooling order until after the completion of the West
21 Lovington 20?

22 MR. BRUCE: That's correct.

23 EXAMINER BROOKS: That was what I
24 understood you to say, but I wanted to be very clear
25 about that.

1 Okay. The other thing -- question that I
2 wanted to ask is: I'm not aware of any decision by the
3 Commission that has ever said whether or not and to what
4 extent a party under a forced pooling order is entitled
5 to information about the prospect before they have to
6 make an election.

7 MR. BRUCE: I'm not aware of any either.

8 EXAMINER BROOKS: Well, I was going to ask
9 you that because I know you're probably aware of a lot
10 more Commission orders than I am. You've been at this
11 business a lot longer.

12 MR. BRUCE: On the other hand, if OXY would
13 participate, which they stated they intend to do, in the
14 West Lovington 20 #1, they would have well information
15 from that well.

16 THE WITNESS: Uh-huh.

17 EXAMINER BROOKS: Okay. Did you have any
18 further questions of the witness?

19 MS. CHAPPELLE: I have just a few, yes,
20 sir. Thank you.

21 REDIRECT EXAMINATION

22 BY MS. CHAPPELLE:

23 Q. Mr. Canon, I just want to clarify a few things.
24 With respect to the second offer, what does that
25 ultimately do to OXY's interest?

1 A. With the second offer, it significantly
2 decreases our economic benefit in the well simply
3 because -- whereas, if we participated at 100 percent
4 and at 100 percent payout, we receive our full benefit
5 of our fee-owned acreage production portion, we will be
6 impacted to where we're only receiving 50 percent of
7 that benefit, and the other 50 percent is going to be
8 only based off of the royalty for one-sixth.

9 So you can argue whether there are -- how
10 the economics will break down as to whether or not
11 one-sixth royalty, based off the estimated production of
12 the well, is a greater benefit than if you participated
13 as a working interest partner. I'm not going to
14 speculate on that today because I'm not a planning
15 engineer.

16 Q. And just to clarify, with respect to the notion
17 that OXY has concerns in the area, is it fair to say
18 that OXY's concerns were heightened once it received
19 information from Nearburg that they, themselves, were
20 going to wait to drill the second well after seeing how
21 the first well did?

22 A. Yes.

23 Q. And so would you say that that's a red flag for
24 OXY?

25 A. Yes. It just confirmed for us that this was --

1 again, I'm not a technical person. I'm a landman. But
2 it did at least leave an impact on us that -- there is a
3 growing concern as to whether or not the plan of action
4 right now, without having seen the results of the first
5 well, are a prudent choice.

6 Q. I have nothing further. Thank you.

7 EXAMINER BROOKS: Neither do I.

8 Mr. Ezeanyim?

9 EXAMINER EZEANYIM: No, I don't.

10 EXAMINER BROOKS: Mr. Bruce?

11 MR. BRUCE: No.

12 EXAMINER BROOKS: Very good. The witness
13 may stand down.

14 MS. CHAPPELLE: Mr. Bruce, do you happen to
15 have another set of these, so he and I can talk about
16 them while he's up there?

17 I apologize for not doing this while
18 Mr. Canon was still up there, but I would like to move
19 Exhibits 1 through 5 into the record.

20 EXAMINER BROOKS: Okay.

21 MS. CHAPPELLE: Should he go back up there?

22 EXAMINER BROOKS: No, that's fine.

23 Any objection to the exhibits, Mr. Bruce?

24 MR. BRUCE: No objection.

25 EXAMINER BROOKS: Exhibits 1 through 5 are

1 admitted.

2 (OXY USA WTP Exhibit Numbers 1 through 5
3 were offered and admitted into evidence.)

4 EXAMINER BROOKS: You know, it really is
5 helpful if we put -- I know it's more work, but it
6 really is helpful if the lawyers put the case number on
7 the exhibits, because the exhibits from one case can
8 easily get confused with the exhibits to another case.

9 Okay. You may proceed. Ms. Chappelle, I
10 believe this is your witness.

11 MS. CHAPPELLE: Yes, sir. Thank you.

12 JEFFREY C. THOMPSON,
13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MS. CHAPPELLE:

17 Q. Good afternoon, Mr. Thompson.

18 A. Good afternoon.

19 Q. Have you previously appeared before this
20 Division?

21 A. I have not.

22 Q. And so you haven't previously been qualified as
23 an expert before this Division either, then?

24 A. I have not.

25 Q. So would you please just state your name and

1 your title and your background, including education,
2 credentials and expertise, please?

3 A. My name is Jeffrey C. Thompson. I reside in
4 Houston, Texas. I graduated with a bachelor's degree in
5 geology in 1981 from the University of Wisconsin,
6 Madison.

7 Upon graduation, I went to Midland, Texas
8 to work for Texaco as a petroleum geophysicist, and for
9 the last 32 years, I've continuously worked as a
10 petroleum geophysicist and/or geologist for Texaco,
11 followed by Altura Energy, which was then purchased by
12 OXY in 2000.

13 MR. BRUCE: Mr. Examiner, before
14 Mr. Thompson proceeds, Mr. Dixon is trying to catch the
15 late plane out of Albuquerque. Is it okay if he's
16 excused from the hearing?

17 EXAMINER BROOKS: It's okay with me.

18 Ms. Chappelle?

19 MS. CHAPPELLE: From our perspective -- I
20 understand that you want to catch your flight, but from
21 our perspective, you know, there's quite a bit at stake
22 here for OXY, and one of their witnesses is leaving that
23 has material information for the case. So I'm -- you
24 know, I'm real -- I want to play fair here, but I'm
25 reluctant.

1 EXAMINER BROOKS: Do you expect to have to
2 need to question him further?

3 MS. CHAPPELLE: No, I don't.

4 EXAMINER BROOKS: Okay. In that case, I
5 believe that it's appropriate to excuse him to allow him
6 to make his flight, because if you did expect, you would
7 need to -- if you had a definite expectation to question
8 him, then --

9 MR. BRUCE: Mr. Examiner, he's got about a
10 15-minute window. If there are other questions, fine.
11 Otherwise, I would ask that he be excused.

12 EXAMINER BROOKS: Well, Ms. Chappelle said
13 she didn't have any questions for him at this time, so I
14 will go ahead and excuse him.

15 THE WITNESS: Thank you for your
16 consideration.

17 EXAMINER BROOKS: Thank you, sir.

18 MR. BRUCE: Sorry, Mr. Thompson.

19 (Mr. Dixon exits the hearing.)

20 Q. (BY MS. CHAPPELLE) So you were discussing with
21 us your credentials and background as an expert both in
22 geology and geophysics.

23 A. Yes.

24 Q. Is there more that you would like to add to
25 that?

1 A. I guess the final note is, I am a licensed
2 professional geologist in the state of Texas.

3 MS. CHAPPELLE: With that, I would request
4 that this witness be qualified as an expert witness.

5 EXAMINER BROOKS: Okay. If you worked for
6 Texaco in Midland, you probably worked in the Midland
7 Savings Building.

8 THE WITNESS: Yes, sir.

9 EXAMINER BROOKS: I feel sorry for you.

10 THE WITNESS: Yeah. The asbestos hopefully
11 wasn't a problem when I was there.

12 EXAMINER BROOKS: I also worked in that
13 building for a number of years (laughter).

14 Okay. He is so qualified.

15 MS. CHAPPELLE: Thank you.

16 Q. (BY MS. CHAPPELLE) Mr. Thompson, can you please
17 turn to Exhibit 6?

18 A. Sure. Exhibit 6 is a structure map of a
19 regional nature of the Strawn reservoir, the same area
20 that we're talking about with the proposed nonstandard
21 80-acre unit, which is shown in red in the south half of
22 the northeast quarter of Section 17.

23 As far as annotation on the map, I didn't
24 provide you with a very good legend. All of the well
25 control in the area is present. The small numbers

1 underneath the well spots represent the total depth of
2 the wells. The wells highlighted in green are all wells
3 that have produced or are still producing from the
4 Strawn reservoir. The blue numbers offsetting each one
5 of these wells is the subsurface top of the Strawn, and
6 the green numbers associated with each of these Strawn
7 wells is cumulative production. The contouring of the
8 Strawn for this map is 50 feet.

9 And I want to draw to you -- draw your
10 attention to the location of the proposed nonstandard
11 80-acre unit between wells producing to the north, which
12 were shown on the previous Nearburg exhibit as being the
13 Midway Strawn field, and then the wells producing -- the
14 three wells producing in the southern portion just due
15 south of this 80-acre nonstandard unit as the Midway
16 Strawn pool.

17 And based upon the subsurface control,
18 which I have available to me in the regional mapping,
19 the location of both tracts within this nonstandard
20 80-acre unit are structurally in a four [sic] position.
21 We have wells capable of producing and have produced
22 from the Strawn slightly updip to the western tract and
23 also slightly downdip to the eastern tract. So I
24 considered both tracts to be prospective during the
25 mapping on a regional basis.

1 Q. Mr. Thompson, with respect to spacing, are a
2 number of these wells 40-acre units, or are they
3 predominantly 80?

4 A. I believe everything shown on this regional map
5 is on 40s.

6 Q. Thank you.

7 Moving now to Exhibit 7, can you please
8 walk us through this exhibit?

9 A. Yes, ma'am. Again, this is a regional picture
10 of this area. It is the Strawn gross isopach map, with
11 a 50-foot contour interval. The annotation is the same
12 on this map as it was on the previous structure map,
13 with the exception that the blue numbers represent the
14 gross isopach of the Strawn, the equivalent from the top
15 of the Strawn to the top of the Atoka.

16 Drawing your attention to the nonstandard
17 80-acre unit, it looks to be in an area of gross isopach
18 thickness between 100 and 150 feet, with, specifically,
19 the 80-acre nonstandard location averaging about 120 to
20 130 feet of thickness.

21 Another observation I've made from the
22 regional mapping is, there does not appear to be any
23 successful wells -- successful Strawn completions with
24 an isopach map less than 100 feet. Wells with isopachs
25 greater than 100 feet could be either successful or

1 noncommercial.

2 Q. Thank you, Mr. Thompson.

3 Turning now to Exhibit 8, can you please
4 talk about your analysis of that exhibit?

5 A. Exhibit 8 is a structural cross section,
6 including the pertinent wells surrounding this proposed
7 nonstandard 80-acre unit. The line of section was shown
8 on the previous exhibits, 6 and 7, as A to A prime.
9 South is to the left, and north is to the right. And
10 the proposed 80-acre nonstandard location would be
11 positioned between the second and third wells as
12 counting from the left.

13 And what I want to point out here is that,
14 in my opinion, an experienced geologist who has worked
15 in this area, we would be able to pick the Strawn
16 reservoir on a consistent basis, and there would be very
17 little discrepancy between one experienced geologist and
18 another in making these picks. The fact the second well
19 on the cross section from the left is the well that was
20 presented in exhibit for the Nearburg parties.

21 What I do want to point out is -- and I
22 apologize for the small scale. I had to take a
23 relatively large cross section and shrink it to fit on a
24 piece of paper. What I want to point out is, the red
25 bars in the depth track of the wells represent the

1 perforation intervals within the Strawn reservoir to the
2 wells on the cross section. So the first, second and
3 fifth wells have perforations in the Strawn.

4 And the important part of this is that it
5 appears that the Strawn -- the Strawn lease -- and I
6 think anybody who has worked this area knows that the
7 pay zone within the Strawn carbonate is re-pull
8 [phonetic;sic]. Formations can exist from top, middle
9 and bottom within the Strawn section.

10 So our concern is that with a nonstandard
11 drilling location, there could be -- there could be pay
12 within our 40 that is not being penetrated with the well
13 as it is planned right now.

14 Q. Thank you, Mr. Thompson.

15 Based on your initial analysis -- and we'll
16 turn to the exhibits submitted by Nearburg here in a
17 second. But just based on your initial analysis, do you
18 believe that this particular nonstandard unit is
19 required to draw down both pools in that acreage?

20 A. Based upon the information available to me and
21 the regional map, I would say no.

22 Q. Nearburg's witness made a statement earlier, I
23 believe, that potentially having two wells in both of
24 these 40-acre units would be uneconomic. What is your
25 position on that?

1 A. I would say that I wouldn't commit to that
2 statement at this point. Exhibit 7, which was presented
3 during these proceedings, shows much more detail than
4 the gross isopach that I presented in my Exhibit 7.
5 This is the same interval that's being mapped. In both
6 cases, mine was based upon regional work and the
7 subsurface work. I believe, in testimony, it was stated
8 that this map was generated with the added benefit of
9 the 3D seismic data.

10 But the other thing that I have concern
11 about as I look at it here in these hearings is, it
12 looks like the predominance of the gross rock volume
13 lies in the eastern 40-acre tract, which is the tract we
14 have an interest in. So I'm not convinced at this point
15 in time that it still does not require two wells.

16 Q. So is it fair, then, to characterize OXY's
17 concern as twofold? One, OXY's concern that Nearburg,
18 itself, is waiting to see how the first well does, and
19 then second, that OXY's resource may not be adequately
20 capitalized based on this current proposal?

21 A. Yes, ma'am, in both cases. Because we know
22 that these reefs can form throughout the Strawn section,
23 top, middle and bottom, the potential for a feature in
24 the eastern portion of our 40-acre tract exists that
25 would not be intercepted in this wellbore.

1 Q. Okay. Mr. Thompson, is it fair to say that
2 your conclusion is that Nearburg hasn't met its burden
3 to prove that a nonstandard spacing unit is appropriate
4 or required in this circumstance?

5 A. Yes, ma'am.

6 MS. CHAPPELLE: I have nothing further for
7 this witness.

8 EXAMINER BROOKS: Mr. Bruce?

9 CROSS-EXAMINATION

10 BY MR. BRUCE:

11 Q. Let's get to one of your -- I believe the last
12 statement. Nearburg is proposing to drill one well at a
13 time. Is that reasonable?

14 A. Yes, sir.

15 Q. So the fact that they're proposing that isn't
16 increasing OXY's risk?

17 A. One well at a time in relation to the West
18 Lovington 20 #1 well and then the Sapient 17 #1 well?

19 Q. Correct.

20 A. That's correct. We are comfortable
21 participating -- very comfortable participating with
22 Nearburg in the 20 #1 well, and we hope it's a great
23 well.

24 Q. And are you aware that when it comes to
25 Division rules and statewide rules on oil well units,

1 that up to four wells can be drilled on a 40-acre well
2 unit?

3 A. I believe it was my understanding that it
4 depended upon the formation and depth.

5 Q. Assuming you can have four oil wells on a
6 40-acre well unit at some point, OXY could propose
7 another well; could they not?

8 A. I believe if we ended up -- end up in a
9 hypothetical situation like that, where we've already
10 signed a joint operating agreement for over 80 acres
11 with Nearburg being named the operator, it would depend
12 on the joint operating agreement if OXY could
13 participate.

14 MS. CHAPPELLE: I allowed the witness to
15 answer that question, but I am going to object based on
16 statements made in Nearburg's own application about
17 drilling only one well for that 80 acres, which I'll
18 redirect. I just want my objection noted.

19 EXAMINER BROOKS: Well, I think Mr. Bruce's
20 question should be clarified, because I would not have
21 understood whether he was talking about in the event
22 that the units were created by the Division and
23 pooled -- I mean compulsory pooled, or whether he's
24 talking about if the parties enter into a joint
25 operating agreement. And, of course, if the parties

1 enter into a joint operating agreement, your answer is
2 quite correct. It depends on the term of the agreement.

3 But my understanding of Mr. Bruce's
4 question was related to the situation if these units
5 were created by the Division for compulsory pooling.

6 MR. BRUCE: That is correct, Mr. Examiner.

7 EXAMINER BROOKS: Okay. And I think that's
8 probably a question of interpretation of the regulations
9 rather than a question of fact.

10 Q. (BY MR. BRUCE) But assuming Nearburg is correct
11 on its well location, testing the thickest part of the
12 reservoir, assuming that, would you anticipate that well
13 to drain both 40s?

14 A. I can't say that with certainty. As I look at
15 this map, it looks to me like the preponderance of the
16 gross rock volume lies in the eastern -- eastern 40.

17 EXAMINER BROOKS: And which map are you
18 referring to?

19 THE WITNESS: Nearburg Exhibit 7.

20 EXAMINER BROOKS: Thank you.

21 Q. (BY MR. BRUCE) And, again, assuming that this
22 well location is correct, would you rather drill two
23 wells at over seven-and-a-half million bucks than one
24 \$3.8 million well that would adequately drain the
25 reservoir?

1 MS. CHAPPELLE: Again, I object, because
2 I'm a little bit confused about the line of questioning.

3 First you have a hypothetical about the
4 possibility of putting two wells on there, and now you
5 have the opposite of that. So I am a little confused
6 about the line of questioning.

7 EXAMINER BROOKS: Well, it is a
8 hypothetical, and I think it's appropriate to ask
9 hypothetical questions; so I'm going to overrule the
10 objection.

11 A. Can I ask you to repeat it for me?

12 Q. (BY MR. BRUCE) Sure. As I said, assuming
13 Nearburg is correct, that this is the best well location
14 and it will drain both 40s, does it make sense to drill
15 two wells on this 80 acres, costing over
16 seven-and-a-half million bucks, if one \$3.8 million well
17 would drain the 80?

18 A. Well, I think the way I would answer that is,
19 right now, as I look at this map, I would want to, one,
20 planimeter this area and determine the gross rock volume
21 that lies in both 40-acre tracts. And using some
22 assumptions of average porosity, I believe that Nearburg
23 testified it would be 100-percent porosity.

24 In the solution gas reservoirs, we have an
25 idea what kind of recovery efficiency we get from them.

1 There could be significant reserves present under both
2 tracts, and I'm not certain at this time that one well
3 would capture them all.

4 Q. Is the drilling of Strawn wells risky?

5 A. I don't think the mechanics or the physical
6 drilling is that risky. The risky part is finding the
7 right location to drill it.

8 Q. You said you worked at Texaco. Was Texaco
9 drilling wells in this area when you were at Texaco?

10 A. That would have been in the 1980s, and we did
11 have a couple of wells.

12 MR. BRUCE: I think that's all I have,
13 Mr. Examiner.

14 CROSS-EXAMINATION

15 BY EXAMINER BROOKS:

16 Q. Okay. Could you explain to us -- well, first
17 let me make sure I correctly understood what you said.
18 My understanding was, you said that looking at Exhibit
19 Number 7 -- was it Nearburg's Exhibit 7 or OXY's Exhibit
20 7?

21 A. I've been speaking to Nearburg's Exhibit 7 over
22 the last couple of minutes.

23 Q. Okay. Let me see if I can find Nearburg's
24 Exhibit 7.

25 A. It's the Strawn-Atoka isopach map.

1 Q. Okay. Nearburg's Exhibit 7. And you said,
2 based on that, you believe that -- let's see. OXY's
3 larger interest is in the eastern quarter?

4 A. Correct.

5 Q. And you believe that that map indicates that
6 the better part of the reservoir is in the eastern
7 quarter-quarter, right? Is that what you said?

8 A. Yes, sir.

9 Q. Why?

10 A. Just looking at the gross isopach -- if, for
11 instance, you just take the 125-foot contour interval
12 and then looking -- and this is a ten-foot contour
13 interval. It goes up to what appears to be 175 feet of
14 gross thickness. The apex is on the eastern tract, and
15 it appears that the preponderance of the gross rock
16 volume above or greater than that 125 isopach falls in
17 the eastern tract.

18 Q. Well, it kind of appears that the amount
19 greater than 145 foot, most of it's in the western
20 portion, doesn't it?

21 A. But then you get into the -- it goes to 175, so
22 you've got more height. That's why it would be
23 interesting to get the gross rock volume of the tank.

24 Q. I would -- I would not venture any judgment
25 about this based on my knowledge of it, but I'm sure you

1 have much more experience than I do. It looks like you
2 have to have a computer to work out the volume of each
3 of these squiggles?

4 A. Which is what we would do.

5 Q. Right.

6 EXAMINER BROOKS: Pass the witness.

7 Mr. Ezeanyim?

8 CROSS-EXAMINATION

9 BY EXAMINER EZEANYIM:

10 Q. Go back to your own Exhibit Number 7. Do you
11 have it?

12 A. My Exhibit 7?

13 Q. Yeah.

14 A. Yes, sir.

15 Q. Are you OXY?

16 A. I'm OXY.

17 Q. And you're Mr. Thompson?

18 A. Yes, sir.

19 Q. Because I'm getting confused now.

20 What is your major objection to the
21 drilling of this well?

22 A. Major objection is twofold. And my colleague,
23 Mr. Canon, addressed the issue of not having the benefit
24 of drilling the 20 #1 well first before we have to make
25 an election on the 17 #1.

1 And the second objection is, OXY's not
2 convinced that one well can adequately drain both
3 40-acre tracts, and we're trying to preserve our
4 correlative rights in our 40-acre tract.

5 Q. Okay. Very good.

6 Now, go back to Exhibit Number 7, and let's
7 examine it. If you look at that red outline there,
8 there is one that is crosshatched, and there is one that
9 is white. You know, I don't see any nomenclature here
10 to know what the green circles are. What are those?

11 A. The big green circles highlight wells that have
12 produced or are still producing from the Strawn
13 reservoir.

14 Q. Now, if you look at the red outline, there are
15 two small black dots. What are those?

16 A. Those wells have total depths, which are shown
17 beneath those well spots in the 9,000-foot range.

18 Q. Oh, they are not in the Strawn?

19 A. Correct.

20 Q. So those wells are not in the Strawn. Okay.
21 That's good.

22 And then your contention is that if that
23 well is drilled as staked, the well in question, the
24 Sapient 17, you think it is not going to drain the two
25 40 acres? That's one point, right?

1 A. I'm not convinced that that one well will
2 adequately drain both of these.

3 Q. Did you produce -- you gave me gross isopach.
4 Did you then design a net isopach, so I can compare with
5 what Nearburg has to see whether production would be
6 from the eastern side? You have an interest -- I
7 understand you don't have an interest in that white 40
8 acres. You don't have anything there?

9 A. Correct.

10 Q. And your contention is that if that well will
11 be drilled, your correlative rights will be impaired
12 because more production would be coming from the eastern
13 portion, right?

14 A. Correct.

15 Q. So do you have anything to demonstrate that
16 here now?

17 A. I do not have a net isopach, but I want to
18 point out that Nearburg's Exhibit 7 is also a gross
19 isopach. So we're presenting the same -- the same maps.
20 They just have more detail.

21 Q. If you do a net isopach, then we can begin
22 to -- I mean, it would show you whether it's actually
23 coming from that eastern side. I don't know why you
24 didn't do it. I mean, if you did it -- I mean, we don't
25 know if production would be from that eastern portion,

1 you know, the crosshatch, or from the white portion.

2 A. Well, sir, I would love to do it, but I didn't
3 have the well control to get to that level of detail.

4 Q. I can't determine anything from the gross
5 isopach. The gross isopach is just gross, you know.
6 But when you do a net isopach, it gives you -- you will
7 know if you are going to produce anything or not. So we
8 need that net isopach to see if what you are saying --
9 you might be right. I don't know. But you need to
10 design that. Because, first, I would have you do it,
11 and then let me see, you know, what the net isopach is
12 doing.

13 Because your contention is, I don't want
14 this one well to be drilled because most of the
15 production is from my own portion of the 40 acres. But
16 I need a demonstration to prove that.

17 A. Well, I don't believe I've got information to
18 give me the net isopach.

19 Q. You don't have that? I mean, you don't have it
20 now. Can you do it when you go home?

21 A. Well, even if I were to go back to the office,
22 I don't have any additional information to generate a
23 net isopach.

24 Q. Okay. That's fair, you know.

25 A. But I want to make sure that we understand that

1 the map that the Nearburg parties presented was also a
2 gross isopach and not a net isopach.

3 Q. It says that, yes.

4 Is there a reason why we can't get a net
5 isopach map in this area? Is there a reason why we
6 can't?

7 A. In my opinion --

8 Q. We don't have information?

9 A. In my opinion, we don't have the information
10 until the wells get drilled, or you have more dense well
11 spacing to generate the net isopach.

12 Q. If we try to extrapolate using the gross
13 isopach, can we be wrong? I mean, I know we don't have
14 the information. If we try to extrapolate that that
15 section -- I mean, that one 40-acre would produce more,
16 is there a possibility we might be wrong?

17 A. Before drilling the well, yes, there is a
18 possibility you could be wrong.

19 And the issue with the net isopach is,
20 we're talking about the gross Strawn carbonate interval,
21 but we can have reef development in the base, in the
22 middle and the top. And these reservoirs quite often
23 are stacked and amalgamated, and they may extend over a
24 different areal extent versus another one that that
25 wellbore is touching at a different stratigraphic depth.

1 Q. When I look at you talk, I think -- I have the
2 impression that I just want to be on my own 40 acres,
3 and let somebody else be on their own 40 and drill
4 one well. But anyway, if -- I mean, two wells. If one
5 well can drain it and with two of those draining --
6 there is testimony here that they are all equal,
7 between -- equally, until proven otherwise. If there is
8 quality of production from that one well, then we can
9 avoid drilling two wells.

10 A. If we could be assured we're not leaving
11 reserves behind that will never be captured.

12 Q. That's a good point, too. So that's, you know,
13 something we don't know. We don't know whether we're
14 going to leave something behind if we drill one well.
15 We don't know if we drill two wells we are going to
16 drill an unnecessary number of wells. These wells are
17 not cheap, from AFEs.

18 So it would appear we don't have enough
19 data to do anything here, because I don't know -- I
20 can't say anything in a vacuum until I get the
21 technical -- we are here to collect data and make a
22 decision based on that data. I don't know how we can
23 make it. We might make it in a vacuum.

24 EXAMINER BROOKS: Well, I would think that
25 the party that wants to depart from the standard spacing

1 pattern has the burden of proof.

2 EXAMINER EZEANYIM: Legally. You tell them
3 that.

4 EXAMINER BROOKS: If there is not enough
5 evidence presented from all the parties in the case of
6 whether the spacing pattern should be other than 40
7 acres, then legally it should be 40 acres. I'm not able
8 to evaluate this evidence. This is outside my area of
9 expertise, but that would be my legal opinion.

10 EXAMINER EZEANYIM: So are you putting the
11 burden of proof on the other party?

12 EXAMINER BROOKS: Well, the burden of proof
13 is on the party that wants to depart from the existing
14 spacing pattern. This is not a court case where you
15 wait until the parties rest, and then the judge makes a
16 decision. This is an administrative proceeding. If we
17 believe it's possible to develop more evidence than the
18 parties have presented, then we can request additional
19 evidence. It's not something a judge would do, but it's
20 something that administrative agencies do all the time.

21 But the bottom line is, if we look at all
22 the evidence that's been presented, plus whatever
23 additional evidence we've extracted, then we could
24 conclude that you can't tell from the evidence what the
25 appropriate spacing pattern is. Then I think our

1 recommendation to the director should be that we go with
2 the standard spacing pattern that's been previously
3 adapted for the area.

4 EXAMINER EZEANYIM: Yeah.

5 Q. (BY EXAMINER EZEANYIM) It appears that most of
6 the wells from your -- what did you say? Bone Spring?
7 Well, where are those wells?

8 A. The wells that are within the red outline are
9 wells that have produced from the Midway Abo Formation,
10 Midway Abo pool, at about 9,000 feet.

11 Q. But not from South Midway Strawn?

12 A. Correct.

13 Q. So there is no way we can use any offsets to
14 determine what's happening around that area?

15 A. No, sir.

16 Q. There are no offsets around?

17 A. No, sir.

18 Q. So that data is not available? There is no
19 data available?

20 A. There are no wells that are penetrating the
21 Strawn right around -- offsetting this proposed
22 location.

23 Q. Okay. Well, we are going to have to arrive at
24 what is legal. I need to see data to be able to make a
25 recommendation. If I don't see any data, I don't know

1 what else to do.

2 EXAMINER BROOKS: As you've done in several
3 other cases, if you see something from the evidence
4 where it ought to be supplemented, we can request that
5 people supplement. I gather that this witness has said
6 he cannot -- he doesn't feel there is enough data out
7 there at this point to generate that net isopach map.
8 That is what I heard him to say.

9 EXAMINER EZEANYIM: Yeah, I heard that,
10 too, and that's why, you know, I believe I need to look
11 at these maps. I mean, it's really -- I don't know --
12 for us to start thinking about this, I don't know. I
13 hate to make a recommendation in a vacuum, but if
14 somebody can give me something that I might look at to
15 help me make that recommendation, I would like to have
16 it.

17 Q. (BY EXAMINER EZEANYIM) See what I mean? So I
18 don't know, but, technically, I need to get something.
19 Otherwise, I will go with what you said.

20 EXAMINER BROOKS: Okay.

21 MS. CHAPPELLE: I have some redirect, yes,
22 sir.

23 EXAMINER BROOKS: Please proceed.

24

25

REDIRECT EXAMINATION

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BY MS. CHAPPELLE:

Q. Mr. Thompson, going back to the hypothetical --

Actually, I'm going to have you look at the application that Nearburg filed in this matter real quick. Mr. Thompson, would you mind reading paragraph four in Nearburg's application?

A. Paragraph four states: "One well will drain reserves underlying the south half of the northeast quarter of Section 17. Therefore, Applicant requests that a nonstandard spacing and proration unit comprised of the south half of the northeast quarter of Section 17 be dedicated to the well."

Q. Okay. Mr. Thompson, do you recall Nearburg's geologist stating that he believed 40 to 60 acres, potentially at the high site, 70, but he did not indicate that the entire 80 would be drained. Do you recall that portion of his testimony?

A. I do.

Q. And then going to Mr. Bruce's hypothetical to you, that it's possible that two wells could be placed in an 80-acre spacing unit, can you please talk me through what impression those three factors leave you with respect to Nearburg's presentation of evidence and position on the matter?

1 A. I guess for me, based upon what I've seen and
2 what I've heard, there is still some question in their
3 mind as to how this should be properly developed.

4 Q. And so, again, having heard the Hearing
5 Examiner's line of questioning, Mr. Bruce's line of
6 questioning, their direct testimony, do you believe they
7 have met their burden to show why --

8 MR. BRUCE: I'd object. That's a legal
9 conclusion.

10 EXAMINER BROOKS: Yeah. I guess if you
11 just say, "Do you believe they've shown," it would be an
12 acceptable question.

13 MS. CHAPPELLE: Sure.

14 Q. (BY MS. CHAPPELLE) So do you believe they've
15 shown good reason to do away with not only statutory but
16 regulatory 40-spacing unit provisions?

17 A. I do not.

18 Q. Thank you.

19 With respect to the issue raised about the
20 cost of drilling a well, please talk me through your
21 understanding about the goal of our regulations and our
22 statute with respect to developing the resource.

23 A. I'm not sure that I'm following the question
24 quite right.

25 Q. Okay. So what I heard -- what I heard in some

1 of the testimony earlier was that we should balance the
2 cost of a well with, potentially, uncertainty about
3 whether or not one or two wells can drain the entire 80
4 acres. And in your experience as a geologist, is one of
5 the goals of both our statutes and our regulations to
6 find the best way possible to get out as much resource
7 as possible?

8 A. To prevent waste and maintain correlative
9 rights.

10 Q. Now, there was some conversation about net
11 isopach and gross versus net. Does the fact that we
12 have potentially -- I don't mean OXY. But in this
13 matter, does it help that there may be some seismic data
14 out there to inform the conversation about gross versus
15 net isopach?

16 A. Based upon my experience in this particular
17 area of Lea County, I do believe that 3D seismic data
18 can help in determining not necessarily net pay, but the
19 zones that are porous and will more likely be able to
20 produce hydrocarbons. And we, unfortunately -- OXY has
21 3D seismic throughout the Basin, but we don't have any
22 throughout this particular area.

23 Q. Thank you, Mr. Thompson. I have no further
24 follow-up.

25 EXAMINER BROOKS: Okay. I have nothing

1 further.

2 Mr. Bruce, did you have anything to add?

3 RE CROSS EXAMINATION

4 BY MR. BRUCE:

5 Q. But OXY could go out and acquire seismic?

6 A. We've been in discussions with the Nearburg
7 parties to try to negotiate a reasonable means of
8 viewing theirs, since it already exists. And it
9 wouldn't delay things for us to contract with a vendor
10 to go out, permitting [sic], acquiring process --

11 Q. Would that also be a less expensive way to go?

12 A. Within the Permian Basin, most companies market
13 their 3D seismic. And, for instance, OXY, after the
14 market -- our data in the Basin, we've got over 5,000
15 square miles of data. A reasonable cost to market our
16 data is probably, depending upon the quality, how big,
17 particular areas, 8,000, \$12,000 a square mile,
18 something along those lines, versus acquiring data. In
19 this area, I would guess it would probably start around
20 \$40,000 today to acquire new data.

21 Q. Thank you, Mr. Thompson.

22 MR. BRUCE: That's all I have, Mr. Hearing
23 Examiner.

24 EXAMINER EZEANYIM: One more comment, if
25 you don't mind.

1 EXAMINER BROOKS: Okay.

2 EXAMINER EZEANYIM: To go back to what I
3 already said, you guys asked about the seismic or
4 something or whatever. That's good. So I think you
5 guys are talking. We might dismiss this case if you
6 agree to something. Why don't you go and talk, so we
7 don't have to deal with -- what if you talk and then
8 agree on how to deliver two 40 acres? Then we dismiss
9 the case.

10 EXAMINER BROOKS: And this is something we
11 can do at our own discretion. Would you recommend that
12 we continue the case to another docket so as to give
13 them more time to negotiate?

14 EXAMINER EZEANYIM: Well, I wouldn't say
15 that, but I wanted them to say whether they want to
16 continue the case. And if they are not talking, what's
17 the point to continuing it? But even if they are going
18 to talk, they're proposing to -- if I tell you to go
19 back and continue it one more time and you're not
20 talking, I don't want to -- I hate to leave it. I want
21 to deal with it now. So if you are going to talk, you
22 have a request. If you're not going to talk, I'm not
23 going to --

24 MR. BRUCE: Mr. Examiner, I think
25 Mr. Canon and -- and my witness said they were going to

1 continue their discussions. That's not an issue, except
2 that you want to get an order out in relatively quick --
3 for my clients, in relatively quick fashion on the first
4 case, in case the parties do not reach agreement so that
5 they can commence the first well.

6 EXAMINER BROOKS: And that was Case Number
7 14995, and that's already been continued for two weeks.

8 MR. BRUCE: It has been continued for two
9 weeks, which will allow further time.

10 EXAMINER BROOKS: Okay. Shall we then
11 continue this one for two weeks also as to allow further
12 negotiations, and then we can make a decision? Because
13 we have the authority to continue a case on our own --
14 on our own authority. Once it's submitted, then we take
15 it under advisement. Then we don't have the authority
16 to make a decision. We just recommend a decision.

17 MS. CHAPPELLE: So I wouldn't mind just
18 commenting really quickly to this. I definitely agree
19 that the first case should be continued for two weeks.
20 We've already discussed that.

21 EXAMINER BROOKS: That's already been done.

22 MS. CHAPPELLE: Right.

23 With respect to the second case, I think
24 the two-week timeline is a little bit early,
25 particularly because we still have that contingent

1 issue. So OXY's interest and concern is twofold, first.
2 And, actually, Mr. Bruce, I believe talked about this on
3 the record. OXY's interest is twofold. One, we really
4 want to be able to see how the first well does before
5 the second well is drilled and before we're effectively
6 potentially force pooled on that. And then two, we've
7 got concern, obviously, about whether one well versus
8 two wells effectively drains 80 acres.

9 So from that perspective, I am not
10 comfortable only continuing this two weeks.

11 EXAMINER BROOKS: Well, I believe Mr. Bruce
12 indicated that Nearburg had conceded that they would
13 have no objection to a provision in any order that was
14 entered that would allow OXY to defer their election to
15 participate or not in the second case pending the
16 drilling of the first case.

17 However, by continuing it for two weeks, we
18 do not preclude ourselves from continuing it a further
19 time, since we'll -- because of the first case, we know
20 we'll all be back here -- we'll all be back in the next
21 two weeks for another heaping helping of our hospitality
22 (laughter).

23 So we'll continue Case Number 14996 until
24 July 11th. Another reason for July 11th is that I will
25 be here on July 11th, and I will not be here on July

1 25th. So some other person will be presiding examiner.

2 (Discussion off the record.)

3 EXAMINER BROOKS: With that, this docket is
4 adjourned.

5 (Case Number 14996 concludes, 3:16 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14996
heard by me on 6-27-13.
David K. Brooks, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

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

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

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



MARY C. HANKINS, CCR, RPR
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