Goetze, Phillip, EMNRD

From: Goetze, Phillip, EMNRD
Sent: Friday, August 22, 2014 4:09 PM
To: Kay Havenor (Kay@georesources.com)
Cc: Ezeanyim, Richard, EMNRD; Dawson, Scott, EMNRD; McMillan, Michael, EMNRD; jamesbruc@aol.com; Gary Larson (glarson@hinklelawfirm.com)
Subject: Case No. 15059 - Request for Proposed Completion Diagram

RE: Case No. 15059 - Request for Proposed Completion Diagram

Dr. Havenor:

In review of the exhibits for the referenced case, I find the open-hole completion inappropriate for the proposed injection operation (commercial) and am requesting a well completion design, on behalf of Mesquite, for inclusion as part of the C-108 application that contains the following elements:

1. production casing that extends from surface to total depth that is to be perforated in the proposed injection interval; and
2. a cement program (i.e. volume, type, as is typically found in the supplemental sheets to the C-108 application) for the production casing.

You may change surface and intermediate casing sizes to accommodate the new string, but all casing strings will be cemented to surface as originally proposed. I will petition that you expedite this request so that the order may be issued. Please direct any questions you may have regarding this request by e-mail. The completion diagram may also be sent by e-mail. Thank you. PRG

Phillip R. Goetze, P.G.
Engineering and Geological Services Bureau, Oil Conservation Division
1220 South St. Francis Drive, Santa Fe, NM 87505
O: 505.476.3466 F: 505.476.3462
phillip.goetze@state.nm.us

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

APPLICATION OF MESQUITE SWD, INCORPORATED FOR APPROVAL OF A WATER DISPOSAL WELL, LEA COUNTY, NEW MEXICO.

CASE NO. 15059

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 9, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, Michael McMillan, Technical Examiner, and Gabriel Wade, Legal Examiner, on Thursday, January 9, 2014, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

APPEARANCES

FOR APPLICANT MESQUITE SWD, INCORPORATED:

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

FOR INTERVENORS YATES PETROLEUM CORPORATION, ABO PETROLEUM CORPORATION, AND MYCO INDUSTRIES, INC.:

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

INDEX

EXHIBITS OFFERED AND ADMITTED

(8:23 a.m.)

EXAMINER GOETZE: Next we will go to Case 15059, application of Mesquite SWD, Incorporated for approval of a water disposal well, Lea County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe representing the Applicant, and I have one witness.

MR. LARSON: Good morning, Mr. Examiner. Gary Larson on behalf of Yates Petroleum, Abo Petroleum and Myco Industries. I have two witnesses.

EXAMINER GOETZE: Will the witnesses stand and give your name for the clerk [sic].

MR. BONEAU: My name is David Boneau, B-O-N-E-A-U, with Yates Petroleum.

MR. MORAN: Charles Moran, Yates Petroleum.

DR. HAVENOR: Kay Havenor, Mesquite SWD.

EXAMINER GOETZE: Would the clerk apply the oath, swear these folks in?

(Mr. Boneau, Mr. Moran and Dr. Havenor sworn.)

EXAMINER GOETZE: Proceed, Mr. Bruce.

KAY HAVENOR, Ph.D.,

after having been first duly sworn under oath, was

questioned and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Dr. Havenor, would you state your full name for the record.

A. Kay, K-A-Y, initial C., Havenor, H-A-V-E-N-O-R.

Q. And where do you reside?

A. Roswell, New Mexico.

Q. And what is your occupation?

A. I'm a consulting geologist.

Q. What is your relationship to Mesquite SWD in this case?

A. As a consultant.

Q. Have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. And are you familiar with the application filed in this case?

A. Yes, I am familiar.

MR. BRUCE: Mr. Examiner, I tender Dr. Havenor as an expert petroleum geologist.

EXAMINER GOETZE: He's so qualified.

Q. (BY MR. BRUCE) Dr. Havenor, before we get into your C-108 -- and by the way, was that C-108 prepared by you?

A. Yes, it was.

Q. This case was originally scheduled for a couple of months ago, and Yates objected, and, also, I believe Devon Energy objected; is that correct?

A. That is correct.

Q. Have you since come -- has Mesquite since come to terms with Devon regarding its objection?

A. Yes. We have reconciled that.

Q. And will you get into the modifications to C-108 as a result of your discussions with Devon?

A. Yes.

Q. Dr. Havenor, can you please, again, just briefly identify Exhibit 1 and describe the well we are here for today?

A. The C-108 is an application for the SWD permit for a new drill location in Lea County, New Mexico, in Section 11 of 25 South, Range 32 East.

Q. And will it be in Unit letter F?

A. That is correct, Unit F.

Q. And the third page describes the proposed well construction; does it not?

A. Yes, that does.

Q. Now, what zone does Mesquite propose to inject salt water into?

A. May I elaborate on that, please?

Q. Yes.

A. Originally the application was filed for Mesquite to apply for disposal into the Bell Canyon and the Cherry Canyon. Devon indicated that they had a prospect that they were considering drilling in the Upper Cherry Canyon and requested that we raise the lowest depth of injection back to 6,200 feet. And Mesquite agreed to that change, and an amendment was appropriately made to the C-108.

Q. Okay. So when we're going through -- and what are the depths that you seek to inject into, the footage depths?

A. The top interval was 4,790 feet, and the lowest interval is 6,200.

Q. So there will be no disposal into the Cherry Canyon?

A. That is correct.

Q. If, on some of these pages, it shows up that you're injecting into the Cherry Canyon, that should be excised because you're only injecting into the Bell Canyon?

A. Yes. The only -- the reasonable correction

that needed to be made to the original C-108 is on the first couple of pages, and so ignore "Cherry Canyon" in any other reference.

Q. And although not on yours, on page 1 of the C-108, there is a cover sheet. It's just basically a summary of changes to the C-108; is that right?

A. Yes, that's correct.

Q. Let's move on. I think starting with page 5, the pages are numbered. What is page 5?

A. Page 5 is a copy of the land plat for the region, and it shows the one-half and the two-mile radius area of review.

Q. Now, with respect to the two-mile radius, are there any freshwater wells in that area?

A. None that have been reported.

Q. And did you check with the State Engineer on this in Roswell?

A. Yes.

Q. And then page 6 just shows a larger blowup of the half-mile area of review. At this time, are there any wells inside the one-half mile area of review, existing wells?

A. No. There are no existing wells in the half-mile area.

Q. What type of injection operations do you

propose with respect to injection volumes and pressures?

A. The proposed volumes are shown on page 7, and the maximum is indicated to be approximately 6,000 barrels of water per day, with an average of approximately 3,500 barrels per day.

Q. And will the maximum injection pressure comply with the Division's .2 psi depth to top perf?

A. Yes. That is 958 psi.

Q. And what -- where do you anticipate most of the injected water will come from? Which other formations?

A. Which other formation?

Q. Yes.

A. It will be Bell Canyon.

Q. No, no. I mean, what type of water will be injected --

A. Excuse me.

Q. -- into?

A. Bone Spring.

Q. Bone Spring, primarily?

A. Primarily.

Q. And will that injected water be compatible with the disposal zone water?

A. Yes, it would.

Q. And your C-108 does contain a water sample from the Delaware Formation, I believe?

A. Yes. That's on page 7.

Q. There are some Delaware wells out there, are there not, that could possibly dispose into this well, also?

A. Not likely.

Q. And as you've already discussed, there are no wells in the area of review -- there are no plugged and abandoned wells and no producing wells in the area of review?

A. That is correct, no wells plugged and abandoned.

Q. And is there any geologic evidence of open faults or hydrologic connection between the disposal zone and underground fresh water?

A. No, there are no known connections.

Q. Would you turn to Exhibit 10 and discuss the construction of the well?

MR. LARSON: Mr. Bruce, did you mean page 10?

MR. BRUCE: Page 10. Thank you, Mr. Larson.

MR. LARSON: It's still early.

MR. BRUCE: I'm not used to having only one or two exhibits.

Q. (BY MR. BRUCE) Could you discuss -- just

briefly give a discussion of the construction of the proposed injection well.

A. Well, as the diagram shows, we'll run a 20-inch conductor string and circulate it back to the surface, and then seven-inch string that will run down into the Bell Canyon. And that will be circulated back to the surface, and it will then be open hole to TD at 6,200.

Q. Will the well be constructed so as to prevent movement of fluid between zones?

A. Yes, it will be.

Q. And does page 11 show the surface owner and the offset operators?

A. Yes.

MR. BRUCE: Mr. Examiner, one -- and I'll get into this in a minute when I present my notice exhibit. Matador Petroleum shows up on all the plats as owning an offset tract. I sent notice to Matador Petroleum. I received a call from an attorney at Matador, and they said that this interest is actually owned by a Cimarex entity.

For your information, about nine or ten years ago, Matador sold a bunch of leasehold interests to what eventually -- what eventually turned into Magnum Hunter, which is a Cimarex entity. Then there was a legal dispute over it, so there was some question about

who owned the interest. But Matador confirmed that Cimarex does indeed own the interest, so notice has been given to them, as well as Matador.

EXAMINER GOETZE: Very good.

Q. (BY MR. BRUCE) Dr. Havenor, is there a need for saltwater disposal wells in this area?

A. A significant need.

Q. You're talking about injecting Bone Spring water through the Bone Spring wells that are being developed in this area to produce a significant amount of salt water?

A. Yes. They produce a significant amount of salt water.

Q. And insofar as technically, do you see any problem with the drilling of the saltwater disposal well?

A. No, sir, I don't.

Q. Do you think it will adversely affect any offset leasehold interest owners?

A. No, I do not. I do not believe that it will.

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

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I'm handing you a

copy of Exhibit 2, which is the Affidavit of Notice, and, again, I sent the notice to the parties entitled to notice. And then the last two pages are the copy of the letter sent to Cimarex after Matador notified me of the change of ownership, and all parties did receive actual notice.

And I would move the admission of Exhibits 1 and 2.

EXAMINER GOETZE: Exhibits 1 and 2 are accepted.

(Mesquite SWD, Inc. Exhibit Numbers 1 and 2 were offered and admitted into evidence.)

MR. BRUCE: And I have no further questions of the witness.

EXAMINER GOETZE: Mr. Larson?

CROSS-EXAMINATION

BY MR. LARSON:

Q. Morning, Dr. Havenor.

A. Morning.

Q. Has Mesquite injected any water into the Paducah Federal #3 well that is from Case 14979?

A. I can't answer that question without checking back some records as to actual injection.

Q. Do you know if the well's been drilled?

A. The #3?

Q. Yes, the Paducah Federal #3.

A. I have to orient myself. Paducah #3 is located in the same section. It has not -- it has not been drilled.

Q. Your C-108 application indicates that the proposed interval has been without significant hydrocarbon shales. What's the factual basis for that statement?

A. Experience is, it essentially attempts -- there has been significant development in the uppermost Ramsey and Olds interval, which is a very thin interval on top. And beneath that, logging and sample descriptions and other penetrations of wells in the area have not found any indications of commercial production.

Q. I believe you testified that the producing water that Mesquite proposes to inject will come from Bone Spring?

A. The vast majority will probably be from the -- from Bone Spring production. That is correct.

Q. And will that water be trucked to the well site?

A. Not to the well site. It will be taken to a station, which will then transfer it to the well site.

Q. And does your application include analysis of any of the Bone Spring water?

A. No. It only includes a Delaware analysis.

MR. LARSON: That's all I have for Dr. Havenor.

EXAMINER GOETZE: Very good.

First of all, I would like to get an analysis of what's going to be provided as commercial operation. Let's make that available to both --

MR. BRUCE: Yes, sir.

EXAMINER GOETZE: -- the Hearing Examiner, as well as to Mr. Larson.

CROSS-EXAMINATION

BY EXAMINER GOETZE:

Q. With regards to the construction, we are seeing more and more of the open hole at shallow depth, meaning something shallower than -- ideally Devonian wells. Though this is an economic advantage, would there be any benefit for putting in casing for this lower portion, the injection interval, as opposed to having an open hole?

A. I cannot see any significant difference. And let me say that, for example, if they were to run and cement a string of casing across the presently proposed interval, then it would be perforated with probably 400, maybe 500 shots through the interval, so you're still exposing the perceived porosity zones where the disposal

will be to disposal. Does that answer your question?

Q. Thank you. It does.

With regards to plans to run the logs, is there any specific suite [sic] we are looking at as far as preferred or just -- we're going to see what the State suggests?

A. Well, it's a federal lease.

Q. Okay.

A. My preference would be that they run a porosity log and a resistivity log. That's what we have done in the past. However, during penetration, there will be a logging unit -- a sample logging unit on the well, and we'll have examination of samples on probably ten-foot intervals, as well as hydrocarbon analysis of returns.

EXAMINER GOETZE: I have no further questions for this witness.

Are you done?

MR. BRUCE: I have no further questions of the witness either, Mr. Examiner.

EXAMINER GOETZE: Very good.

Mr. Larson?

MR. LARSON: No, nothing further.

EXAMINER GOETZE: Mr. Larson, would you like to present?

MR. LARSON: I would like to.

CHARLES MORAN,

after having been first duly sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. LARSON:

Q. Good morning, Mr. Moran. Would you please state your full name for the record?

A. Charles Moran.

Q. And where do you reside?

A. Artesia, New Mexico.

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

A. I'm employed by Yates Petroleum Corporation. My title is chief landman.

Q. And have you previously testified in an Examiner Hearing?

A. Yes, I have.

Q. And during each of those hearings, were you qualified as an expert in land matters?

A. Yes, I was.

Q. And who are you testifying on behalf of today?

A. I am here on behalf of Yates Petroleum Corporation, Abo Petroleum Corporation and Myco Industries, Inc.

Q. And do you have personal knowledge of each

entity's interest in the area surrounding the surface location of the proposed SWD well?

A. Yes, I do.

MR. LARSON: Mr. Examiner, I'd move to admit Mr. Moran's qualifications as an expert in land matters for purposes of this hearing.

EXAMINER GOETZE: He is so qualified.

Q. (BY MR. LARSON) Mr. Moran, I'll direct your attention to the document marked as Yates Exhibit Number 1 and ask you to identify the document.

A. Exhibit 1 is a land plat that I worked with and had built intending to show Yates' leasehold ownership directly offsetting the location of the proposed well in Unit letter F of Section 11.

The various colors represent different record title ownership in the leasehold. Primarily, the yellow was dominated by Yates Petroleum Corporation. They have the largest interest there. The blue was dominated by Abo and Myco, having the largest interest there. The whole area is covered by a joint operating agreement that makes Yates Petroleum Corporation the operator of the leaseholds that are colored on the map.

Q. And did you or somebody under your supervision prepare this document?

A. Yes.

Q. And I'll direct your attention to the numerous wells that are indicated -- I guess it's to the west of the Yates, Myco, Abo interests. And who is the operator of those wells?

A. I don't remember who the operator of the wells is at this point. I did not look into that. I was going to let the engineer pay attention to that detail.

Q. And for any wells in which Myco, Abo and/or OXY Y-1 have an interest, which entity operates those wells?

A. Yates Petroleum Corporation.

Q. And is Yates currently operating any producing wells in the area of review?

A. Yes. We have one well in the area of review, producing in Section 2.

Q. And that's a horizontal well?

A. It is a horizontal well.

Q. And does Yates currently have any plans to develop additional horizontal wells within the area of review?

A. Yes. We have plans to develop additional wells in the area. I'm currently working to get those moving forward.

Q. And are those drilling plans the subject area for Dr. Boneau's testimony?

A. Yes, they are.

Q. And does Yates currently have any plans to develop any horizontal wells in any of the adjoining sections?

A. Yes, we do.

Q. Will Yates be the operators of those?

A. Yates Petroleum will be the operator of those wells.

Q. And do you know the time frame for Yates' horizontal drilling program within the half-mile area of review?

A. The time frame is -- we intend to get out there and commence drilling as soon as we can get out there. There are some permitting issues that we are working with to drill, so I can't give an exact timetable. But, you know, we are ready to go and move forward, and within the year, I anticipate we'll be out there drilling wells.

Q. And from a land perspective, have all of the entities with interest in the project areas for those planned wells within the area of review joined in the wells?

A. At this point, I have had conversations with the owners out there, and everybody is excited about drilling. I haven't triggered, by sending them an AFE, their commitment to drill the well. So at this point,

nobody -- you know, everybody's excited about doing it. We're looking forward to doing it. I just need to send the AFE, which I'm waiting on a permit so I can get the AFE moving.

Q. Has anybody verbally communicated to you opposition?

A. No. Everybody's excited about doing it, and everybody's looking forward to getting them drilled.

Q. And how about the time frame for horizontal wells in the adjoining sections.

A. It will be part of our program out there. My understanding is, we're going to have a rig out there drilling continuously, once we get things moving.

Q. And how about the interests -- mineral interests in the project areas for those wells? Have they communicated to you their position on the proposed wells?

A. I haven't talked to the mineral owners. I presume -- the leases are federal and state. I believe they want those minerals developed.

Q. And why are Yates, Myco and Abo opposing the Mesquite --

A. Because we believe that it will interfere with our plans out there to develop our leasehold.

Q. And in your opinion, would the proposed

injection of produced water negatively impact Yates', Abo's and Myco's correlative rights?

A. My understanding is that we believe it will negatively impact our drilling program.

Q. And why is that?

A. Because it has the potential to make it more costly to develop the minerals by -- and, you know, this is me listening to the engineers, by creating a zone of high-pressure water that we will have to drill through that creates drilling problems, thus driving up our drilling costs.

MR. LARSON: Mr. Examiner, I'd move the admission of Exhibit Number 1, and pass the witness.

EXAMINER GOETZE: Exhibit Number 1 is so accepted.

(Yates Exhibit Number 1 was offered and admitted into evidence.)

EXAMINER GOETZE: Mr. Bruce?

MR. BRUCE: Just a few questions.

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Looking at your exhibit, Mr. Moran, I'm kind of confused as to the exact boundaries. You have like a dark purple outline around certain of the acreage, but it doesn't seem to fully connect.

A. The -- as you pointed out, there is some leasehold out there owned by third parties. The parties that I can represent formed a working interest unit. The working interest unit is much larger than what is intended to be reflected on this map. It extends over to the east farther. I did not color everything we had in the map. The colors on the map were just intended to be immediate offset to the Section 11.

Q. Okay. But definitely --

A. I had more colors to the south, more colors to the east.

Q. Okay. But on this map, definitely the bright yellow, bright blue and crosshatched yellow are within the working interest unit?

A. The crosshatched yellow is a contractual interest that is subject to a different agreement than the Farber Working Interest Unit. It's a separate, distinct agreement, but under that agreement, Yates has the operator. They are other owners of the wells.

Q. And then looking at the existing wells in Exhibit 1 -- excuse me -- in Sections 1 and 2, are the open holes the surface locations?

A. Yes. The open holes are where the surface is at, and the dark hole is where the bottom hole is at.

Q. And you mentioned some permitting issues out

there. Is that due to potash or --

A. Since they are federal permits, the permits have not been issued, and the leases are currently suspended.

Q. Ah.

A. And so I did not have permits. I've applied for the APD to get them drilled, but I have not received permits for the wells yet.

Q. Yes, because I was looking at Dr. Havenor's exhibit, and it looked like some of these leases were past their primary term.

A. Yes, but they are suspended.

Q. Are any state leases suspended or only the federal?

A. Only the federal. The state lease is Section 2, and it is drilled and producing.

Q. Thank you, Mr. Moran.

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

EXAMINER GOETZE: Very good.

I have no questions of you.

Let's move on to the next witness, please.

DAVID FRANCIS BONEAU, Ph.D.

after having been first duly sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. LARSON:

Q. Dr. Boneau, please state your full name for the record.

A. David Francis Boneau.

Q. And where do you reside?

A. Artesia, New Mexico.

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

A. I'm employed by Yates Petroleum Corporation. My title is reservoir engineering manager.

Q. And are you also testifying today on behalf of Abo Petroleum, Myco Industries and Yates Petroleum?

A. That is correct. Yes, sir.

Q. And what is your terminal degree?

A. I have a Ph.D. in nuclear physics from Iowa State University in 1969.

Q. And have you previously testified in an Examiner Hearing?

A. Yes, I have.

Q. And during those hearings, were you qualified as an expert in petroleum engineering?

A. Yes, that did happen several times.

MR. LARSON: Mr. Examiner, I'd move that Dr. Boneau be qualified as an expert in petroleum

engineering for purposes of this hearing.

EXAMINER GOETZE: For purposes of this hearing, he is so qualified.

Q. (BY MR. LARSON) Dr. Boneau, are you familiar with the Yates horizontal drilling plans that Mr. Moran has discussed?

A. Yes. I'm probably more familiar with them than he is.

Q. And directing your attention to the document marked as Yates Exhibit 2, would you please identify that document?

A. The document is a map showing nine sections centered on Section 11 where the Mesquite Blue Quail SWD well is proposed to be drilled.

Q. And did you or somebody under your supervision prepare this document?

A. That's correct. Yes.

Q. And how many surface locations or planned horizontal wells are located within the half-mile area of review?

A. Within the half-mile area of review, as Mr. Moran pointed out, there is one existing well whose surface location is -- I would call it Unit O of Section 2, in the south of Section 2, and extends north to Unit B of Section 2. That wells exists. It's called

Undaunted. It's actually a very good 2nd Bone Spring producer.

Undrilled wells, the wells with dashed lines are horizontal -- proposed horizontal wells that Yates Petroleum would drill on this acreage owned by the various companies. And obviously from a land perspective, I only know yellow, so regardless of what Yates' ownership is, it's marked yellow on mine. That's the -- well, whatever. That's the non-landman. That's the engineer.

Finally, to your question, by my count, there are five surface locations that are clearly, definitely within the half-mile area of review, and there are two on like 2:00 of that circle that are really close to the edge. And I couldn't swear they're in or out, actually. On the map, they look to be barely out, but they are very close to the edge. So somewhere between five and seven surface locations for horizontal Bone Spring wells are within the half-mile area of review.

Our plans are that those wells would be 2nd Bone Spring wells, just because I'm talking -- the well that exists, Undaunted, has a major vertical depth of about 11,000 feet. So the 2nd Bone Spring is about 11,000 feet, and then with the lateral, it extends to

almost 16,000 feet of depth.

Q. And based on Yates' experience with the Undaunted, does Yates believe that the planned horizontal wells within the area of review will be productive?

A. We expect them to be productive, yes.

Q. And the Undaunted is also a 2nd Bone Spring well?

A. The Undaunted produces from the 2nd Bone Spring Sand, yes, sir.

Q. I next direct your attention to the document marked as Exhibit 3. Can you please identify that document?

A. Yes. Exhibit 3 is a map showing a larger area around -- mostly around the proposed Blue Quail location. And, honestly, it stands sort of to the east. But it just shows that Yates has quite a bit of acreage to drill in this area. And the wells that are on our drilling schedule are all those dotted lines, and by my count, there are -- I don't know -- 21 or 22 that are within that two-mile area of review. And you can see that there are a whole bunch of them. There are 40 or 50 wells. We have a major drilling program under way or almost under way in this area. We're really excited about this area. We want to drill these wells.

Q. And did you or someone under your supervision prepare the document marked as Exhibit 3?

A. Yes, sir. Exhibits 2 and 3 were made by me with some help, at the same time.

Q. And Mr. Moran touched on the time frame for the drilling program both in the half-mile area of review and the two-mile radius you've indicated on Exhibit 3. Do you have any insight to the time frame of these wells being drilled?

A. We have our drilling program laid out for 2014, '15, '16, and many of the wells that we're talking about here are on that drilling schedule. Some of them, this year. Some of them, definitely in 2015. And the engineers and the associate technical people, you know, make plans, and then the land people have got to come through with the permits, et cetera, for us, but we have a plan that includes drilling a huge number of these wells within the next year, two years, two-and-a-half years.

Q. In relation to the wells outside the area of review but within your two-mile radius, what are the target zones for those wells?

A. The target zones for all the dotted lines, all the wells proposed in this area is the 2nd Bone Spring Sand. And like I said, it's at 11,000 feet in the well

in Section 2, and it's going to be a similar depth in the wells throughout this area.

Q. And if Mesquite were granted authority to inject produced water, would the zone of influence of the produced-water plume extend out into that two-mile area indicated on your plat there?

A. It will eventually. It won't the first month. Obviously, it will impact the half-mile area of review and move out. But within the time frame -- we think we're talking about drilling these wells in the near term. The near term is not next week and the week after. The near term to get these wells drilled and whatever is the three years I'm talking about or something on that order, and within that time frame, the water injected into the proposed well could clearly influence outside the half-mile circle.

Q. And what impact would the proposed injection of produced water have on Yates' drilling program both within the half-mile area of review and within the two-mile area indicated on Exhibit 3?

A. Well, I'm sure everybody realizes that the deal is, they're injecting shallow, and we're drilling deep. And so we have got to -- to reach this 2nd Bone Spring Sand interval, we have got to drill through their injection zone, and we do not want to run into

high-pressure water in that injection zone as we try to drill through. I've got an example or two, but there are various kinds of minor to major disasters that can occur when that happens.

Q. The next document is marked as Exhibit Number 4. I'd direct you to that.

A. Okay. I'm looking at it.

Q. And could you identify that document for the record?

A. That document shows four sets of numbers, basically, and it's my attempt to put some numbers involving pressures to the assertions that I'm making about high-pressure water. And so there is a table in the middle of the page. We're talking about Mesquite's proposed Blue Quail Number 1 proposed injection interval. It's 4,790 to about 6,200 feet, open hole. And I tried to compare the pressure. Their -- by their -- the Commission and myself, I think, agreed on using the top of the zone, 4,790 feet.

So the first line, under "Condition," says "Natural - No Well." What I think is out there now is at 4,790 feet. The pressure is going to be approximately -- 2,074 pounds is what it -- .4. It's the normal gradient in southeast New Mexico. It's basically a freshwater gradient. The pressure there is

2,074 pounds. The most right-hand column then puts that in terms of equivalent mud weight. This is just something that appeals to drilling people. And I don't know how many drilling people are in the room, but the natural condition, you would need a mud weight of 8.3 pounds per gallon, which is more or less fresh water, to balance the natural pressure at 4,790 feet.

Second line, then, says: "Wellbore filled, Total Dissolved Solids, 276,000 parts per million." That's the really heavy brine, from the analysis, that appears in the Mesquite C-108. So if you fill that wellbore to 4,790 feet with that heavy brine, you've got a higher pressure down there because you've got more weight sitting on it, and the pressure at that point then becomes 2,526 psi, or approximately that, with no surface pressure. Just because you filled it with that heavy brine, you raised the pressure by 450 pounds.

Then the third line says: "Apply .2 psi per foot at the surface." And as Dr. Havenor indicated, that's 958 psi, and you then raise the pressure at the top of the injection zone by 958 psi. And you're now up to 3,484 pounds, 1,400 pounds above where you started. And the mud weight you would need to overcome that, to balance that, is 13.9 pounds per gallon, which is on the high end of what's possible in the real world.

Anyway, you've raised the pressure a lot by injecting at the presumed allowable pressure that the Commission always uses. And those are just -- those are just the numbers that you get by applying the conventional thinking. That's, I think, what I'm trying to say.

And then the last line talks about the case -- and I don't know if it's applicable here or not. I hope it's not applicable, actually. But the case where, via a step-rate test, the surface pressure can be administratively raised, and the -- well, there are lots of orders that have that wording in them. And I just put an example here where the step-rate test resulted in raising it to .3 psi per foot. I mean, there is another case floating around today where they're proposing .6 psi per foot. Anyway, the last line is an example of a step-rate test allowing the surface pressure to be raised to .3 psi per foot. And then, of course, you have more pressure at the surface, so you have more pressure down in the injection interval. And you're now up to 3,963 psi, so you're up to 1,900 pounds higher than the natural condition down there. You've essentially doubled the pressure in that zone.

And if Yates has to drill into a zone with twice as much pressure as it's supposed to have,

normally has, we're going to have blowouts, washouts, low circulation. We're going to have water we can't handle. We're going to be hauling water maybe to another one of Mesquite's disposal wells. But we're going to have a big problem on our hands. Well, in other words, we could have a big problem on our hands.

Exhibit Number 4 is an attempt to put some numbers on the magnitude of the pressures that are possible under the operation proposed, and my plea is that the step-rate test, on top of all the other pressure you add in, it really doesn't seem like a good idea to me. It really seems like a bad idea to me.

Q. And did you or someone under your supervision --

A. Number 4?

Q. -- create the document marked as Number 4?

A. Number 4 you must blame entirely on me. I prepared Number 4.

Q. I'll give you all the credit for that.

And you mentioned various problems that arise as you produce the mud weights. How does that translate into dollars in terms of drilling costs?

A. Okay. I have two exhibits, 5 and 6, that relate to one example --

Q. And we'll get into those in a moment.

A. -- close to the -- close to the most catastrophic example we've run into in the past few years. Anyway, I have this catastrophic example where it cost us millions of dollars.

Recently we had a water flow in a well in northern Lea County that we were able to control in three or four days, at a cost of $75,000, something like that.

We've had other examples in the $300,000 range, one-million-dollar range, hundreds of thousands of dollars, you know. The one example is $3.5 million. I'm not saying that every well we drill is going to cost $3.5 million more because of this injection. That's the high end of the catastrophes that can happen.

If I had to pick a number, if we get one of these water flows, it's going to cost us 750,000, a million dollars to fight what seems, in my head, to be in every one of them. But I have a example of $75,000. I have a multimillion-dollar example. But it adds up to significant dollars, and it takes the momentum out of a drilling program. It's hell is what it is. It's just horrible.

Q. I'll direct your attention to Exhibit Number 5. Do you take sole credit for this one as well?

A. I took a copy of a map that was more or less

commercial, and I wrote all the good words that are in the middle of the exhibit.

Q. And is this your worst-case-scenario example?

A. This is a worst-case-scenario example. It's an example of a water flow causing drilling problems, with probably a big-time S on the end.

The wells involved -- well, I sort of apologize for the map in that I wish there were two wells instead of all those circles that you see. But more or less in the middle of the map, it says "State T #2," and it has kind of a -- it has a black circle, and it has a gas well symbol, and it has a northeast-southwest line through it. But that is the injection well that was the problem in this case.

And south of that, it says "Door BIW State #1" and "#1Y." Those are the -- that's the well -- and it actually turned out to be two wells -- that Yates attempted to drill, and you can see that it's approximately -- the two wells are approximately a half mile apart.

So the story and my example, item number one, says: "Pronghorn" -- who was the operator -- "State T SWD #2 injected into the Glorieta." And it was the Glorieta. It was not Delaware. It was the Glorieta. But it was 4,810 to 6,880 feet, sort of the

same depth of the injection interval we're talking about with the Mesquite well. That injection well began operations in February of 2004. It injected 1.6 million barrels of water from there through November 6; maximum injection rate, 3,000 barrels a day; average injection rate, 1,590 barrels of water a day.

So that injection was going on when we get to item number two. Yates began drilling its Door BIW State #1 well on June 10th, 2006, so about two years after this well a half mile away had been injecting water. We hit a water flow at 6,257 feet on June 26th. Water was flowing into our wellbore 15 to 18 barrels per minute.

I'm making the story long, but to make it shorter than it would be if we went through 23 days of misery, we fought the water flow for 23 days, extended the depth down to 6,811 feet, got all kinds of stuff stuck in the hole and plugged the original well.

Item number three: We then moved 50 feet away and redrilled what is called the #1Y well, and that was -- immediately continuing operations. So that well spudded on July 22nd, 2006. We successfully drilled it to 11,660 feet in the Strawn and cemented casing. And this time we were able to get the well drilled because we knew what was coming. So we used heavy mud through

the Glorieta, and you'll see that it was 11- and 12-pounds-per-gallon mud. And as soon as we got through the Glorieta, we ran an extra string of casing to cement off that injection interval, and then we were able to drill the bottom part of the well, which you would call, normally.

So item number four tells you the dollar numbers involved. The AFE original well was $2.83 million. When we prepared an AFE for the redrill, that AFE was $3.1 million. So what we expected to be the cost of the well was somewhere around $3 million. We actually spent $2.9 million on the #1 well, you know, and never got anywhere near TD, most of that fighting the water flow. And we actually spent $3.65 million on the replacement well. So we spent $6.55 million, when normal operation would have required a cost of about $3 million. So we spent an extra amount of money, around $3.5 million, caused by this water flow from a well 2,300-some feet away.

Can I continue on to Exhibit 6, which is --

Q. I was just going to --

A. -- kind of the rest of the story?

Q. I was just going to ask you about that. For the record, was this document also prepared by you?

A. Yes. This was -- Excel and I made this

exhibit.

Q. And what is it intended to depict?

A. It's intended to give a better picture of what happened in this instance than my words, and hopefully it did that. But it's a plot of mud weight on the left-hand column in pounds per gallon versus the depth that the well is at. And there are little blue diamonds representing tie [sic] #1, Door BIW State #1, and there are red squares representing the mud weights during the drilling of the replacement well.

So we started to the left with the blue diamonds. At zero depth and at shallow depth, the mud weight is nine and a half, ten, those kind of numbers, out until you get to the 6,000-foot range. We hit the water flow, and the mud weight drops. You've got three little diamonds down there around 9.5. Water flow dilutes the drilling mud, and then the diamonds shoot up as we put in heavy mud trying to fight that. And the water flow keeps diluting our mud, and we finally give up. Maybe we flooded too long.

Then the red squares show the picture with the replacement well. And so at shallow depths, the red squares and the blue diamonds are more or less in the same place, but as we get close to the water flow, we raise the mud weight to 12.5 pounds. So there are some

red squares way up there on the top with the words that say "raise the mud weight before reaching the water flow." And then the red squares kind of fall off maybe down to 11, 6 or something.

And as the -- as the -- the water flow moves our heavy mud a little, but we're still able to keep a high mud weight. We get through the Glorieta. We cement the casing across the Glorieta, and then from 7,000 out to 11,000-something, the mud weights are down to 9.5, normal. We cured the problem. We drilled the rest of the well with normal mud weights.

To me, it was just a way to better illustrate the story, and I hope that it helps some of the people here. It helped me picture what actually happened there.

Q. And, Dr. Boneau, in your opinion, can Yates' experience in drilling the Door BIW State #1Y well be applied to Yates' horizontal well drilling program in the area of Mesquite's proposed SWD well?

A. There are similarities in the area. They're absolutely not right next to each other, but in the example I gave, the offsetting well was approximately half mile away, and we have five locations to drill that approximately half mile away from the proposed Mesquite Blue Quail well. The injection interval is roughly the

same kind of depth that we're talking about. Actually, the volumes of water injected in my Door example are 50 percent or lower than what's proposed by Mesquite in the example here. You know, no analogy is perfect, but there are a number of similarities. And it indicates that you can have significant water flows at 6,000 feet, and they cause big problems.

Q. And are you able to estimate the amount of increased drilling costs that Yates could be facing if water were injected into the proposed well?

A. You're going to get the same answer I said like five minutes ago. It can vary. A recent example, $75,000, $3.5 million, some other examples in between. My idea of an average is $750,000, $900,000, around a million dollars. When you have one of these problems, dig in your pocket for an extra million dollars. You can't do that very often.

Q. And in your opinion, would the proposed injection of produced water impair Yates' correlative rights?

A. I think there's a good chance that that will happen. We've got a lot of good wells to drill, and we're going to be -- you know, we're going to be taking a lot of shots into this zone where they're injecting water. And I'd be surprised if we -- I'd be shocked if

we had no problems, with the magnitude of our program and the close proximity of their proposed injection.

Q. And even though Yates requests that Mesquite's application be denied, in the event that it is granted, do you believe that Mesquite should be allowed to administratively increase the injection pressure for the well?

A. No. I believe -- I believe that Mesquite should not be made available of an administrative procedure to raise the injection pressure. Pretty much, I believe that nobody should, you know, have that right. You just look at the numbers, and you're getting really high pressures down there, with the .2 psi, and to raise that administratively, without a really close look, just seems like a bad idea to me.

MR. LARSON: And at this point, Mr. Examiner, I'll move the admission of Yates Exhibits Numbers 2 through 6.

EXAMINER GOETZE: Exhibits 2 through 6 are so entered.

(Yates Exhibit Numbers 2 through 6 were offered and admitted into evidence.)

MR. LARSON: And I'll pass the witness.

EXAMINER GOETZE: Very good.

Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. First, Dr. Boneau, could you refer to Exhibit 2.

Go ahead and take a drink of water if you need to.

A. I'm not going to ask you for permission for a drink of water. Sorry. No offense (laughter).

Q. I had a witness a few months ago who almost choked to death when his throat got dry, so --

A. Okay. One per yearis enough to die.

MR. BRUCE: Mr. Examiner, if I could approach the witness for a second?

Q. (BY MR. BRUCE) Dr. Boneau, I've handed you Mesquite's Exhibit 1, and turn to page Exhibit [sic] 6.

MR. LARSON: Exhibit or page?

EXAMINER GOETZE: Page.

Q. (BY MR. BRUCE) Page 6.

A. Is that the one on top?

Q. Yeah. I opened yours up to page 6.

A. I see it.

Q. Now, the footage of this well pursuant to Mesquite's application is 2,100 from the north line and 1,660 feet from the west line, which is pretty much shown on page 6 of Mesquite's Exhibit 1. In looking at

your Exhibit 2, you have moved the well significantly northward, until it's about 1,320 feet from the north line, haven't you?

A. I'm not going to use the word "moved," but --

Q. I'm saying somebody put it --

A. -- the location on our map is north of the location on your page 6.

Q. So as a result, there are a lot more wells that you say are in the area -- potentially in the area of review. And I think you used the number of five to seven wells would be in the area of review, but if you use Mesquite's area of review and compare that with your Exhibit 2, it really only looks like maybe two or three wells would be in the area of review, correct?

A. It looks to me like four would be, the three in the north edge of 11. Well, in D, C and B of 11, I think would still be, and the one in N of 2 would still be, in my opinion. But it's really close. You're right.

Q. And I'd also note there it looks like not only has the well location on your Exhibit 2 been moved to the north, it has also been moved to the east several hundred feet. And that's just eyeballing it, and --

A. Well, I'm just eyeballing your red circle in the location of our wells. Anyway, whether it's two or

four, it's less than seven.

Q. Okay. Because the surface location for the Undaunted is outside the area of review, according to Dr. Havenor.

A. It's really close.

Q. It's close, but it's outside the area of review. So what you're looking at is a couple of wells in the west half of Section 11, insofar as I can see.

A. Well, you're --

Q. And I don't want to argue with it --

A. Yeah.

Q. -- but it depends --

A. I would just say --

Q. Go ahead.

A. I've always looked at the two-mile area of review as having equal status with the half, and that's, of course, up to the Commission. But you're correct in that fewer of our locations are within your red circle on page 6 than are within my circle on my Exhibit 2.

Q. Now, in looking also at your Exhibit 2, certain wells are being drilled from south to north, and others are being drilled from north to south. So since they're all stand-up well units, it doesn't matter whether you head from the south to the north or the north to the south. Is that a fair statement in drilling the 2nd

Bone Spring tests?

A. I agree and disagree. The reason for having them where they are is so that they can be -- so the two of them can be closer together, maybe on the same path. And so it depends on what acreage you own as to -- I mean, first, we own -- we're talking about drilling wells in 2 and 11, and so for those surface locations to be close together, they have to be at the south edge of 2 and the north edge of 11.

If all we had was 11 and 14, for example, then going to 11 would be -- have surface locations at the south edge of 11 and go north, and the ones in 14 would be at the north edge of 14 and go south.

So it depends on your ownership position as to which way you would do it. So I reject your hint that we could go out and change them all around either way, but I agree with you that there is some leeway. And this is the way -- you know, the way we have them drawn here, with our ownership, is the way that makes sense with the ownership that's here. And they're not capaciously put where they are. They're put where they're located on my map so that adjacent --

Q. And I have no -- I'm not quibbling with you about that, Dr. Boneau. But, for instance, if you look at Exhibit 3, also, your Exhibit 3, up to the north --

and I presume these aren't Yates' wells, but you can see that the operator up in Section 25 has taken wells and basically used one pad to drill two wells in each 160-well unit. And Yates could do that, obviously; could it not?

A. We could do that, and we could put more of them within the half-mile area of review or fewer of them in the half-mile area of review by those adjustments, yes, sir.

Q. Now your Exhibit 5. First of all, what township and range are these wells in? We're not talking --

A. Yeah. I wasn't supposed --

Q. We're not talking 25 North, 32 East, are we?

A. No. The answer to your question is shown in Exhibit 5 in the title block. It's 16 South, 35 East.

Q. So up near Lovington?

A. So it's up near Lovington, yes.

Q. And you're talking about water flows in the Glorieta, not the Bell Lake?

A. Bell Canyon, yeah.

Q. Bell Canyon.

A. I'm talking about -- this water flow is in the Glorieta. It is not in the Bell Canyon.

Q. And you said that these Door wells were half a

mile from the State T2. It looks like they're more like a quarter mile away.

A. They're 2,310 feet away, I think is the number I calculated. They're about 2,300 feet away.

Q. Now, you gave another example, and I don't know if you were talking about these Door wells. You said you were in northern Lea County and had an issue with water flow.

A. This is in northern Lea County. The recent one is in 19-32, I think Section 35. The well is called L-U-S-K, Lusk.

Q. Lusk.

A. It's in the Lusk area, 10H. It has our letters. It's in the ABH [sic], but Lusk 10H well. We drilled it in November. Relatively recently, we ran into a water flow at 5-, 6,000 feet. It would not be in the Bell Canyon. We would be in the -- we ran into a water flow at 5- or 6,000 feet. We were able to control it by raising the mud weight for three or four days and no extensive hole-in costs; some delay, but the number was put at $75,000 as the cost of that delay.

Q. But, again, it wasn't Bell Canyon?

A. I don't think it was Bell Canyon.

Q. Was there a saltwater disposal well in the area?

A. Yes, there is a saltwater disposal in the area. I cannot tell you the name of it. I do not remember the name of it this morning.

Q. Or its location?

A. Well, other than "close by," I cannot tell you its location.

Q. Kind of nebulous, "close by," isn't it, Doctor (laughter)?

A. It's in southeast New Mexico (laughter).

Q. Let me just make sure I have nothing else, Dr. Boneau.

Well, my only comment is, Dr. Boneau, you've successfully avoided coming up here for quite some time.

A. Well, I've done that, and then I've successfully avoided retirement (laughter).

MR. BRUCE: That's all I have.

EXAMINER GOETZE: No more questions?

Very good.

CROSS-EXAMINATION

BY EXAMINER GOETZE:

Q. I have one question. Are you familiar with the drilling of the Undaunted? Were there any problems associated with its completion?

A. No.

Q. So there were no flooding issues? There were no abnormalities associated with drilling and completing it other than your typical?

A. That is correct, yes. And it's turned out to be a very good well, so (crossing fingers) --

Q. Do you know what production is?

A. Oh, yes. I'm glad you asked. It was drilled last January, February. It was drilled early in 2013. It went on production in March of 2013. Through the end of 2013, it has produced 95,000 barrels of oil, an average of 350 barrels of oil per day, and it's currently producing 275 barrels of oil per day.

Q. With water -- do you know how much water is coming in just roughly?

A. 2- to 300 barrels, similar kind of numbers. So it's on its way to being a 3- or 400,000-barrel well, the kind of well that we like.

Q. And with regards to drilling, the scheduling of locations tends to be driven more by holding leases, or would it be something that would be adjusted based upon events that were going to happen later on? Say, for instance, the pressure would be to get something done in this area if this well were to be permitted. Would there be availability for changing schedules?

A. Oh, gosh. That's a multifaceted question.

Q. Yes, sir.

(Mr. Wade exits the room.)

A. First of all, I'd like to say, I'm really trying to convey some information. Yates has the reputation of drilling wells to hold leases. We have had many internal knock-down, drag-outs about changing that policy. And I have been on the change-the-policy side of those discussions, and I have made some -- I -- we, whoever -- have made some progress. We are actually letting some leases go, et cetera. So I know I can't destroy that stereotype, but I'm tying to -- we're trying to move away from that. So we're really trying to have -- well, how much do you want me to say? We probably have a minute or two. Let me go this way if you like.

Last spring, the land people and the geologist at Yates Petroleum came to me with a map of 3600 locations of wells that we could drill and asked -- told me to tell them which of them would be clearly economic, give a rate of return of 20 or 25 percent on our money. I spent three months on this project, and I gave them a list of 1,040 wells that would -- that we should drill, that we could drill and make money on, in my opinion. And almost all the wells that we've drilled since then are among those 1,040 wells. I'm not saying

we've gone totally away from these labors [sic], but we've gone quite a bit away.

Anyway, we've got a lot of wells that look good to us to drill, and we are scheduling those out. They actually fall into four areas that you would roughly call north Eddy County, south Eddy County, north Lea County and south Lea County. And this is basically the south Lea County area that you're seeing here.

We now have four rigs drilling these Bone Spring wells, basically one in each of those areas. We're planning, in the near future, to add a fifth rig, you know, which is more or less immaterial, but that rig we'll be drilling in Lea County. I can Scout's honor tell you.

So we have a -- you know, I'm telling you that we have a plan that is not based on saving leases. It's based on drilling good wells. It gets modified when somebody else drills a really good well offsetting us, offsetting a well that we have four years down the road and we move it up to one year down the road. You know, we make those kind of adjustments, but within the group of wells that we think are good to drill. And, of course, I'm going to the board of directors every quarter and reporting on what the wells we're drilling are doing. And, I mean, I may be way off base, but my

last report was of the first -- we've drilled 18 wells, and I have data they're from our list. And 16 of them are clearly good, and one of them's on the edge, and one is not good. Anyway, we're going back to the board of directors. And when five of my wells fail, we will move away from that area or something. You know, anyway -- but there are ways -- the point I'm trying to make is that we're going to modify the drilling schedule, but we're going to modify it based on our own drilling results and on drilling results of offset people, not on saving leases. You can believe that or not believe that, but I am -- I and some other people in the company are really trying to get this happen [sic], and we are moving down this drilling schedule.

Does that come anywhere close to answering --

Q. That gives me a handle, yes.

A. -- where you started from?

(Mr. Wade enters the room.)

Q. So this is a significant prospect as far as Yates goes, as far as your plan?

A. Yes. It's one of our four big areas, and, you know, it's the best or second best. You know, it's not the worst of the four. It's among the top two of the four. It's an area we are going to drill a lot of wells

and count on it being one of our main focus areas, yes.

Q. And then one last question: Porosity and permeability. Based on your information, is Bell Canyon, let's say, to the Glorieta, are they similar or dissimilar?

A. Bell Canyon -- I mean, my guess -- I think, in general, that Bell Canyon is going to be better porosity, better permeability than Glorieta.

Q. Very good.

EXAMINER GOETZE: I have no further questions.

Mr. Bruce?

MR. BRUCE: I have nothing further in this case, Mr. Examiner.

EXAMINER GOETZE: Mr. Larson?

MR. LARSON: Nothing further, Mr. Examiner.

EXAMINER GOETZE: At this point, I will ask one thing: If you could provide the API numbers for the Undaunted, so we can enter that into record, also the two Door, State #1 and State #1Y, wells, so we can have those. We will take the information presented, and take this under advisement. So Case 15059 is taken under advisement.

And we're going to take a 15-minute break, please.

(Case Number 15059 concludes, 9:45 a.m.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 15059 heard by me on January 9 2014

Phillip R. Goetze, Examiner
Oil Conservation Division

STATE OF NEW MEXICO

COUNTY OF BERNALILLO

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
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014