

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

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

COPY

APPLICATION OF COG OPERATING, LLC, Case 14577  
FOR VERTICAL EXPANSION OF THE GRAYBURG-JACKSON  
SEVEN RIVERS-QUEEN-GRAYBURG-SAN ANDRES POOL  
TO CORRESPOND WITH UNITIZED FORMATION OF THE  
BURCH-KEELY UNIT, EDDY COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

January 6, 2011

Santa Fe, New Mexico

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, DAVID K. BROOKS,  
Legal Examiner, and WILLIAM V. JONES, Technical Examiner,  
on Thursday, January 6, 2011, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South St.  
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
Albuquerque, NM 87103 505-843-9241

A P P E A R A N C E S

FOR THE APPLICANT:

PADILLA LAW FIRM, P.A.  
ERNEST L. PADILLA, ESQ.  
P.O. Box 2523  
Santa Fe, New Mexico 87504-2523  
(505)988-7577

FOR CONOCOPHILLIPS:

JAMES G. BRUCE, ESQ.  
P.O. Box 1056  
Santa Fe, New Mexico 87504-1056  
(505)982-2043

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1 EXAMINER BROOKS: The first case on the  
2 docket this morning is Case 14577, the application of COG  
3 Operating, LLC, for vertical expansion of the  
4 Grayburg-Jackson Seven Rivers-Queen-Grayburg-San Andres  
5 Pool to correspond with unitized formation of the  
6 Burch-Keely Unit, Eddy County, New Mexico.

7 Mr. Hall has withdrawn in that case. Is  
8 anyone appearing on that case?

9 MR. PADILLA: Mr. Examiner, I'm Ernest L.  
10 Padilla, entering an appearance for COG Operating at this  
11 time. I have a written entry of appearance. If I may  
12 approach?

13 EXAMINER BROOKS: Very good. You may  
14 approach.

15 MR. PADILLA: I wasn't sure who was on the  
16 service list, so I didn't serve anyone.

17 EXAMINER BROOKS: Pardon me?

18 MR. PADILLA: I wasn't sure who was on the  
19 service list, but I think I'm handling it now. That's no  
20 issue.

21 EXAMINER BROOKS: Are you appearing in  
22 this case, Mr. Bruce?

23 MR. BRUCE: Yes. Mr. Examiner, Jim Bruce,  
24 representing ConocoPhillips Company. I have no  
25 witnesses.

1 EXAMINER BROOKS: Okay. Do you have  
2 witnesses?

3 MR. PADILLA: I have two witnesses.

4 EXAMINER BROOKS: Would the witnesses  
5 please stand to be sworn?

6 (Two witnesses were sworn.)

7 EXAMINER BROOKS: The witnesses have been  
8 sworn. Please state your names.

9 MR. REYES: Ramon Reyes.

10 MR. EVANS: David Evans.

11 EXAMINER BROOKS: Very good. You may  
12 proceed.

13 MR. PADILLA: Mr. Evans, you'll be first.

14 DAVID EVANS

15 Having been first duly sworn, testified as follows:

16 DIRECT EXAMINATION

17 BY MR. PADILLA:

18 Q. Mr. Evans, please state your full name.

19 A. David Ray Evans.

20 Q. Where do you reside?

21 A. Midland, Texas, 79701.

22 Q. Who do you work for?

23 A. For Concho Resources.

24 Q. The applicant here is COG Operating. Can you  
25 tell us what the connection is between Concho and COG

1 Operating?

2 A. COG is the operating arm of Concho Resources.

3 Q. You're a landman; is that right?

4 A. Yes, sir.

5 Q. How long have you been a landman?

6 A. 31 years.

7 Q. And what's your position with COG Operating?

8 A. I'm the New Mexico land lead for the show.

9 Q. Are you familiar with the purpose of the  
10 hearing today?

11 A. I am.

12 Q. And have your credentials been accepted as a  
13 matter of record as a landman for the Oil Conservation  
14 Division?

15 A. They have.

16 MR. PADILLA: We tender Mr. Evans as a  
17 petroleum landman.

18 EXAMINER BROOKS: So qualified.

19 Q. (By Mr. Padilla) Mr. Evans, can you briefly  
20 tell the Examiner what the purpose of the hearing is  
21 today?

22 A. We're simply trying to expand the limits from  
23 4,000 down to 5,000 feet of the Grayburg-Jackson Pool so  
24 that it coincides with the Burch-Keely Unit.

25 Q. You were a witness in the earlier case

1 regarding formation of the unit; is that right?

2 A. I was not.

3 Q. You were not. Are you familiar with the land  
4 configuration in that case?

5 A. I am.

6 Q. Would you tell the Examiner more or less where  
7 the land is located and where the pool is located?

8 A. This is a 5,200-acre unit in Eddy County,  
9 New Mexico, currently unitized down to 4,000 feet. We  
10 had a previous hearing to expand that horizon down to  
11 five, and this is simply to also change the pooling to  
12 coordinate with the pooling application.

13 Q. Mr. Evans, what is the vertical ownership that  
14 COG or Concho owns within the unit?

15 A. COG owns 100 percent from the surface down to  
16 5,000 feet.

17 Q. Do you know how that was established in terms  
18 of the 5,000-foot limit?

19 A. In 1992, Marbob acquired this interest from  
20 Phillips Petroleum Company for rights and service down to  
21 five. And then Marbob took over operations. The unit  
22 was created in 1993, October, and we recently filed for  
23 the expansion of the unit.

24 Q. And the unit is -- the vertical limits of the  
25 unit are zero to 5,000 feet; correct?

1           A.     Right now the vertical limits of the unit are  
2 from the surface down to four, with an application to  
3 expand down to five.

4           Q.     And that case is under consideration by the  
5 Oil Conservation Division; right?

6           A.     Yes, it is.

7           Q.     Let me hand you what has been marked for this  
8 hearing as Exhibit Number 1. I'll have you tell the  
9 Examiner what that is.

10          A.     Exhibit 1 is an outline of the Burch-Keely  
11 Unit and also the offset properties to the Burch-Keely  
12 Unit.

13          Q.     How is that unit outlined on that Exhibit  
14 Number 1?

15          A.     Outlined in blue.

16          Q.     That's approximately the middle of the --

17          A.     Middle of the map, eight sections, 5,200  
18 acres.

19          Q.     Do you know what the effect of the -- well,  
20 let me rephrase. You can drill down to 5,000 at this  
21 point; right?

22          A.     Yes, sir. We have the rights to drill down to  
23 5,000 feet.

24          Q.     And what is the effect -- the practical effect  
25 of the application here today?

1           A.     The main purpose of the application today is  
2     to prevent waste, to allow us to use existing wellbores  
3     to go down to 5,000 feet, to avoid commingling,  
4     additional permitting processes, Division orders.  
5     Basically, to prevent waste and to make it economic and  
6     beneficial to all the parties.

7           Q.     Do you have anything further to add to your  
8     testimony?

9           A.     I do not

10                   MR. PADILLA: Pass the witness,  
11     Mr. Examiner.

12                   MR. BRUCE: I have no questions of

13     Mr. Evans.

14                                   EXAMINATION

15     BY EXAMINER BROOKS:

16           Q.     The Burch-Keely Unit -- Mr. Evans, is the  
17     Burch-Keely Unit -- this is a voluntary unit?

18           A.     This is a statutory unit.

19           Q.     It's a statutory unit. Okay. And do you  
20     happen to have the order number by which this unit was  
21     formed?

22           A.     It was statutorily formed in 1993. It's  
23     A-7900.

24           Q.     We should have an R order, wouldn't we?

25           A.     It's an R.

1 Q. R-7900?

2 A. Yes, sir.

3 Q. Since it's a statutory unit, I assume it's a  
4 secondary recovery or tertiary recovery unit?

5 A. Yes, sir.

6 Q. What kind of enhanced recovery operations are  
7 going on down there?

8 A. This is a waterflood.

9 Q. Okay. And it's an active waterflood?

10 A. Yes, sir.

11 Q. Okay. I'm interested in that for another

12 reason, because I've received a number of non-standard  
13 location applications for wells in this Burch-Keely Unit  
14 from COG recently. And of course, if it's an active  
15 waterflood, then the location rules do not apply, except  
16 for the setbacks from the outer boundaries of the unit,  
17 so most of those are probably not necessary.

18 Okay. And what you're doing here today is not  
19 going to affect the royalty interest; is that correct?

20 A. Royalty owners would not be affected, as long  
21 as we get the unit approved to expand down to five and  
22 the pool to go down to five.

23 Q. Okay. What is the present base?

24 A. 4,000 feet.

25 Q. And it's defined by feet, not by

1 stratigraphic?

2 A. I'd have to go back and look at that.

3 Q. Okay. And is this federal, state, or fee  
4 land, or some combination?

5 A. Four federal leases.

6 Q. It's all federal then?

7 A. Yes, sir.

8 Q. Has your proposal been approved by the Bureau  
9 of Land Management?

10 A. We've got initial approval of it. We are  
11 submitting approval for the formal unit deepening.

12 That's ongoing.

13 Q. And I asked did it affect the royalty owners.  
14 Clearly it wouldn't as to the federal government. But  
15 there might be some overrides?

16 A. Yes, sir. There are overrides that would be  
17 consolidated under the expansion of the unit.

18 Q. Would all overrides be uniform as to all  
19 depths down to 5,000?

20 A. Yes, sir.

21 Q. Okay. I assume we're going to have a geologic  
22 witness testify as to the geology?

23 A. Yes, sir. He's next.

24 EXAMINER BROOKS: Thank you. That's all I  
25 have. Mr. Jones?

1 EXAMINER JONES: One question.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. Is this in the application? It says the  
5 pooling unit areas are comprised of these lands. Does  
6 that mean that the Grayburg-Jackson Pool laterally does  
7 not extend -- is exactly the size of the Burch-Keely  
8 Unit?

9 A. Our geologist is going to testify to that.  
10 But, basically, the pool itself is short about 1,000 feet  
11 down to five. So we need to expand that pool down to  
12 5,000 feet in order to match that other unit that we  
13 applied for already.

14 Q. Okay. What about laterally, though? Is the  
15 pool -- in other words, would this action make that pool  
16 have different depths at different places?

17 A. I defer to the geologist.

18 EXAMINER JONES: Okay. Sounds good.

19 EXAMINER BROOKS: That's all I have.  
20 Anything further, Mr. Padilla?

21 MR. PADILLA: Nothing further.

22 EXAMINER BROOKS: The witness may step  
23 down. Call your next witness.

24 MR. PADILLA: We'll call Ramon Reyes.

25

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RAMON REYES

Having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PADILLA:

Q. Mr. Reyes, please state your full name.

A. Ramon G. Reyes.

Q. Mr. Reyes, where do you live?

A. I live in Midland, Texas.

Q. What do you do for a living?

A. I'm a geologist.

Q. For whom are you employed?

A. For Concho Resources.

Q. And COG Operating is the operating arm of Concho; is that right?

A. That's correct.

Q. And how long have you been a geologist?

A. Over 30 years.

Q. And where were you educated as a geologist?

A. Texas Tech University.

Q. And for whom have you worked as a geologist?

A. Boy. I worked for Getty, with Harvey Yates Company. And the last seven and a half years, with Concho.

Q. What have you done to prepare yourself for your testimony here today?

1 A. What have I done?

2 Q. Yeah. In terms of the pool in question.

3 A. Well, I'm presenting three exhibits today to  
4 show the Commission what it is we're trying to do.

5 Q. And have you made a study of the pool, the  
6 vertical limits and certain aspects of that pool?

7 A. I have.

8 MR. PADILLA: Okay. We tender Mr. Reyes  
9 as a geologist.

10 EXAMINER BROOKS: He is so qualified.

11 Q. (By Mr. Padilla) Mr. Reyes, what exhibits did  
12 you prepare for introduction here today?

13 A. I have three exhibits that I -- that are the  
14 exact same exhibits that I'd shown to you guys back in  
15 October. So nothing has changed. So it's -- they're the  
16 exact same copies. I just thought we'd bring them back  
17 and show them to you again.

18 Q. You testified in the earlier hearing for  
19 expansion of the unit?

20 A. I did.

21 Q. And you presented the same exhibits in that  
22 hearing?

23 A. I did.

24 Q. Let's talk about Exhibit Number 1 that's there  
25 in front of you now. Can you tell us what that is in

1 terms of the geology exhibited there?

2 A. Like Mr. Evans pointed out, the blue outline  
3 is the limits of the Burch-Keely Unit. And we've also  
4 expanded it to show our acreage position and production  
5 overall. It also has a structure map that is on top of  
6 the Paddock. Some people call it the Yeso. So you can  
7 tell going from west to east, there's a structural dip  
8 going towards the east.

9 Q. You'll notice on that exhibit that there are  
10 wells that have blue shading and there are wells that are  
11 solid red. Can you tell the Examiner what the difference  
12 is?

13 A. Yes, sir. Because the Yeso section is roughly  
14 around 1,200 feet thick, we broke it down into two units.  
15 The upper third of that is called the Paddock, and the  
16 bottom two-thirds of that Yeso, we call it Blinebry. So  
17 the red dots represent production that only produces --  
18 the red solid dot is Paddock production only. And the  
19 red and blue dots represent production through the whole  
20 section, the Paddock and Blinebry section.

21 Q. Within the unit itself, do you have any  
22 blue-colored wells in there?

23 A. There are no perms or production in the  
24 Blinebry section.

25 Q. Do you know why that is generally? Why that

1 hasn't been drilled?

2 A. Yes. The history of this Yeso production  
3 started out with production in the upper part of the  
4 Yeso, which is the Paddock. I will demonstrate and show  
5 you in the cross-sections that it's obvious that the  
6 better porosity interval in that section is -- was the  
7 obvious place to go.

8 The Blinebry section is a very tight section,  
9 as I testified before. That averages roughly 3 to 5  
10 percent porosity over all. Because of modern and better  
11 frac techniques, we're able to produce from that tighter  
12 zone. And so that's why you see where we flank on both  
13 sides of this unit the blue markings on these wells that  
14 we were able to capture reserves in that Blinebry  
15 section.

16 Q. Mr. Reyes, in terms of structure, what does  
17 Exhibit Number 1 show?

18 A. Structurally -- well, I'll demonstrate.  
19 There's a cross-section line going across. As you go --  
20 if you start on the west side of this unit, the Blinebry  
21 section that is above 5,000 feet that we have 100 percent  
22 ownership is just under 600 feet thick. By the time you  
23 get to the east end of the unit, it's just under 300  
24 feet.

25 So there is a significant amount of section in

1 the Blinebry that we want to include by this vertical  
2 extension so there is no waste and we can properly  
3 capture all the reserves that are rightfully ours.

4 Q. The structure just merely shows that there's a  
5 continuous dip across the map?

6 A. That's correct.

7 Q. Let's go on to Exhibit Number 2. What is  
8 Exhibit Number 2?

9 A. Exhibit Number 2, as I stated earlier and had  
10 also shown to the Commission, is when the order was made  
11 for the pool to demonstrate where the 5,000 foot limit  
12 was going to be cut off, they used this Great Western  
13 Burch-Keely A 27 as a well to distinguish where they were  
14 going to cut off or establish the pool vertical limits.

15 Q. So where were they established?

16 A. The pool limit was established to only cover  
17 the Paddock interval, which meant that they only went  
18 from the top of the Paddock, 500 feet below that. And  
19 it's marked on your -- on this map. That shows where the  
20 top of the Paddock is picked, which is at the base of the  
21 Glorieta, and then 500 feet. And that almost pretty much  
22 coincides with where we pick for where the start of the  
23 Blinebry section is, as indicated on this cross-section.

24 Q. Does this type log show the proposed  
25 extension?

1           A.     It does.  If you'll look at -- I have taken it  
2 all the way up to the top of the Seven Rivers.  So on the  
3 right-hand side of the log, that is the current area that  
4 covers the Grayburg-Jackson Pool, which would be from the  
5 top of the Seven Rivers down to 500 feet below the top of  
6 the Paddock.

7                     The pink section right below that is the area  
8 that is not included that is -- that goes from the 5,000  
9 foot cut off, and the Grayburg Deep Pool starts.  So  
10 there's this area where it's not in either the  
11 Grayburg-Jackson Pool or the Grayburg Deep Pool, so it's  
12 kind of in no man's land.

13           Q.     In terms of the wavy lines on this log that I  
14 see here, is there any difference between the Paddock and  
15 the proposed expansion or extension?

16           A.     There isn't.  Like I stated before, all this  
17 is the same stratigraphic rock.  It's the Yeso portion of  
18 the formation, so it's all the same.  So in other pools  
19 throughout that, the Yeso is included all the way up to  
20 the Queen or the Seven Rivers, in some cases.  You can  
21 see that in the Empire Field, which is to the west, and  
22 in the Loco Hills Field to the east.  You'll see where  
23 the pooling and the commingling part goes all the way  
24 down to the base of the Yeso or the top of the Tubb.

25           Q.     Now, what else do you have on Exhibit Number

1 2?

2 A. Just going back in Exhibit 2, normally when  
3 have you a type log, you only use one log so there's no  
4 confusion what you're trying to show.

5 The log that was picked to determine the  
6 5,000-foot cutoff, so to speak, rather than picking a  
7 formation or stratigraphic formation, which would have  
8 probably made this a lot easier and us not having to be  
9 here, and say let's cut it off at the top of the Tubb or  
10 at the base of the Glorieta, something that you can hang  
11 your hat on, rather than a 5,000 foot measured depth,  
12 cuts right into the middle of this Yeso formation.

13 So all I did was there's this old map. This  
14 well was drilled, I believe, in 1956. It's a very poor  
15 well. There's not a lot of interpretation that you can  
16 get off this log. So I used a current well that we  
17 drilled that's offsetting, that's not too far from that  
18 just to demonstrate the correlation of what you're seeing  
19 and so you can understand where we're at as far as the  
20 stratigraphy of the area.

21 Q. Is this well shown on your cross-section?

22 A. It is.

23 Q. Let's go to the cross-section now. Is your  
24 log in the cross-section also shown on Exhibit 1?

25 A. It is.

1 Q. That's shown by a red circle; is that correct?

2 A. That's correct.

3 Q. Go ahead and tell us what wells are shown on  
4 Exhibit 3, which is the cross-section.

5 A. If you go back to the first exhibit, I  
6 picked -- I put one well that's outside the boundaries of  
7 the unit and also showing the production in the Paddock  
8 and the Blinebry section that we're currently producing  
9 from that's outside the unit, which would be one of the  
10 GJ wells that would be on the left side of the  
11 cross-section.

12 Then I picked the last well that I used as a  
13 type log to tie into the cross-section, and it's also in  
14 another part -- on the east end in the Loco Hills field,  
15 that we've also drilled all the way through the Yeso  
16 and -- just to demonstrate the production that is  
17 established in the Paddock and the Blinebry section. So  
18 those two wells on the end are to demonstrates where  
19 there is production established in that lower two-thirds  
20 of the Yeso.

21 The other four wells that are within the unit  
22 are wells that were drilled at an earlier time, and they  
23 were mainly drilled for a Morrow test. So I picked those  
24 wells because they go deep enough to cut through the  
25 whole section. All the other wells within the unit do

1 not go past 5,000 feet, so I was not able to demonstrate  
2 or show the full section of the Yeso, what we're talking  
3 about here, and to show what's below 5,000 feet.

4           So if you go back to the cross-section, what  
5 you're seeing here is a cross-section on the top of the  
6 Paddock. And right below there, there's a dash green  
7 line. That dash green line represents the current pool  
8 limits vertically that go from the top of the Paddock and  
9 500 feet below that. So that's where it stands right  
10 now.

11           The pink represents the area that is from the  
12 bottom of the pool limit to the 5,000 that we -- the  
13 ownership that we have. So this is the area that we're  
14 trying to extend, that bottom restriction all the way  
15 down to 5,000 feet. This cross-section demonstrates how  
16 much of that section is being left out if we don't  
17 proceed forward and take it down all the way to 5,000  
18 feet.

19           Q.     Mr. Reyes, let me direct your attention to the  
20 well on the -- the first well on the left. That is  
21 perforated in this section, right, in the proposed  
22 extended area?

23           A.     That's correct.

24           Q.     And so is the well to the east? That's  
25 perforated in there too; right?

1           A.     That's correct.

2           Q.     In terms of prevention of waste, can you  
3 elaborate how expansion of the proposed area would help?

4           A.     Well, by not extending the limits of the pool  
5 down to 5,000 feet, we would have to establish different  
6 facilities because these will be called -- will be  
7 undesignated. They'll be called wildcats. It would be  
8 another pool, per se. It would be -- it would not make  
9 sense.

10                   This is not brain surgery. Because it's the  
11 same formation. It's not something that we're extending  
12 it and including another formation, so to speak. It's  
13 the same rock. It's the same -- it's been established  
14 throughout this field.

15                   So it makes sense for us, economically, to  
16 take it all the way down so that we're able to get all  
17 the production that we can and maximize, without having  
18 to go back in and do other, you know, drilling programs  
19 to try to capture, you know, what's left out.

20                   So you can see off to the west, we have almost  
21 600 feet of section that's going to be out there that's  
22 not going to be produced, you know, by no one, other than  
23 us for now. So it's only reasonable that we do it while  
24 we can, as we're applying for new applications to drill  
25 wells, APDs, and get them done, you know, as economically

1 as we can.

2 Q. Mr. Reyes, do you have anything further to say  
3 about Exhibit Number 3?

4 A. I don't.

5 Q. Mr. Reyes, would approval of this application  
6 be in the best interest of conservation of oil and gas  
7 and the prevention of waste?

8 A. Yes, sir, I believe so.

9 Q. Would it protect your correlative rights?

10 A. Yes, sir.

11 MR. PADILLA: Pass the witness.

12 MR. BRUCE: I have no questions of

13 Mr. Reyes.

14 EXAMINER BROOKS: Okay. I guess I will  
15 start where Mr. Jones left off with the last witness who  
16 deferred to you on this issue.

17 EXAMINATION

18 BY EXAMINER BROOKS:

19 Q. Are the horizontal limits of the  
20 Grayburg-Jackson Pool, do they include other areas, other  
21 than the Burch-Keely Unit?

22 A. I'm not for certain. What I can tell you,  
23 what I just testified earlier, is on the -- going back to  
24 Exhibit 1, if you go back and look at the fields on both  
25 sides that flank this unit, and you can see where the

1 blue and the red circles are at. Those fields, the one  
2 to the right being the Loco Hills field and the one to  
3 the west being the Empire field, those pool limitations  
4 include all of the Yeso section, all the way up to the --  
5 probably to the Seven Rivers.

6 Q. So those are not -- those areas are not in the  
7 Grayburg-Jackson?

8 A. I don't believe so.

9 Q. Okay. Now, this 5,000 feet, is this the  
10 top -- the defined top of the Grayburg Deep Unit, 5,000  
11 feet?

12 A. It is my understanding, yes, sir.

13 Q. And so that, we've established, as the top of  
14 the pool, because it was a unit boundary, rather than  
15 because of any geology; correct?

16 A. That is my understanding, yes, sir.

17 Q. As I look at your logs, it looks like this is  
18 more or less uniform through the area you want to expand,  
19 but it continues more or less uniform on down below that?

20 A. Yes, sir.

21 Q. So the 5,000 foot is, basically, an ownership  
22 boundary and not a geologic boundary?

23 A. That's correct.

24 EXAMINER BROOKS: Okay. I guess that's  
25 all I have. Mr. Jones?

## EXAMINATION

1

2 BY EXAMINER JONES:

3 Q. How long have you worked in the oil patch?

4 A. A long time.

5 Q. You're probably pretty happy right now with  
6 the merger?7 A. Well, it depends on how you spin it. More  
8 work, having to deal with cleaning up some stuff that  
9 we're having to -- other than that, it's been fun. It's  
10 been a good ride.11 Q. The lateral limits of the Burch-Keely, is it  
12 exactly the same as the Grayburg Deep Unit?13 A. I don't know for a fact. I can certainly find  
14 out and pass that on to you. You know, these -- I just  
15 don't know, to be honest.16 Q. I think that's fine. I don't think you need  
17 to get back to us on that.18 What about well spacing out here? How do you  
19 drill on these wells -- you probably told us this earlier  
20 in October -- in these 3 percent porosity?

21 A. Yes, sir.

22 Q. Sounds like your logs are lying to you a  
23 little bit here. Do you core anything? Do you know --  
24 is it 3 percent true or --

25 A. The overall -- you know, I mean if you average

1 out the porosity, yeah. I mean, yes, we get some  
2 porosity spikes, 6, 7 percent porosity. But overall on  
3 average, it's pretty tight rock. It's pretty ugly.

4 I mean when I first got on this project, I  
5 didn't want to set pipe on the first well. No way, 3  
6 percent. That's unheard of.

7 So yeah, my mindset has changed a lot. Like I  
8 said, the fracking techniques have improved a lot. These  
9 are fractured rocks. It's carbonate rocks. So I mean --  
10 so there's where you get your -- that's where you get  
11 your -- you know, that's where you get all your oil from  
12 is from the fracturing of the rock. Yeah. I mean -- and  
13 we're down to 10-acre spacing.

14 Q. Okay.

15 A. So the 10-acre spacing is working. This is a  
16 statistical phase. You can see by the map a lot of wells  
17 on 10 acres. So I've been asking, "What's the average  
18 production?" It varies. You don't know until it's on  
19 production for a while. Some will come in at 50. We've  
20 had some come over 400 barrels a day. You offset a well  
21 that's making 50 barrels, and the offset within that 40  
22 acre will make 400 barrels, not sustained, but it will  
23 make it, and it drops pretty quick. So yeah, it's been a  
24 pretty exciting venture here.

25 Q. So 40-acre spacing is fine with four wells,

1 for vertical wells?

2 A. So far our economics are holding up. I'm not  
3 the reservoir engineer to give you exact numbers, but --

4 Q. It's not a horizontal play?

5 A. There have been some horizontals drilled out  
6 here, mainly in the Paddock, yes, sir.

7 Q. Okay. But not these Blinebry. Is the Tubb  
8 equivalent in age to the Grayburg-San Andres? So if you  
9 go further east, it turns into Grayburg-San Andres; is  
10 that true?

11 A. Well, as you go farther east -- well, you  
12 know, we haven't looked too much farther east yet. I  
13 can't give you an exact -- you know, this stuff turns  
14 into Clear Fork once you get into Texas and farther on.  
15 So I'm talking about the Yeso section. So nomenclatures  
16 will change a little bit, and there are some issues as  
17 you go farther east, some water issues that we're having  
18 to deal with. The field extension goes a little farther  
19 east for us, so there is some water contact that we're  
20 concerned about. This is all the same. But in every  
21 different area, it has its issues.

22 Q. But it dips to the east?

23 A. It dips east, yes, sir.

24 Q. Is it thin to the east?

25 A. The section stays roughly about the same,

1 again, about 1,200 feet.

2 Q. So the 5,000 foot surface depth, you're  
3 talking from surface? You're counting on the surface  
4 being flat?

5 A. Right.

6 Q. It's whatever the land people came up with?

7 A. Right. Actually, it was land people that put  
8 this deal together, so no pun intended here.

9 So yeah, that's why we have the issue we're  
10 having here. It makes no sense looking at it now to  
11 clean it up. The 5,000 foot, as you can see in that  
12 cross-section, you've got almost 600 feet of section that  
13 we're trying to add to our production. And then by the  
14 time you get over here, you've got a little less than  
15 300. So it doesn't make sense stratigraphically. It's  
16 the same rock, you know. I don't think a lot of thought  
17 was put into it.

18 But again, you've got to remember when the  
19 pool was established, the Paddock was the only horizon  
20 that was being produced from. So nobody even considered  
21 that the bottom two-thirds, the Blinebry, was ever going  
22 to be productive. So in some ways, it does make sense to  
23 cut it off 500 feet below the Paddock and everybody is  
24 happy and you go on your way.

25 Well, technology has changed and different

1 thinking is -- here we are before you asking you that we  
2 do want to -- we do think it's productive. We do think  
3 it has merits to produce from.

4 Q. Are you asking for a pool name change here to  
5 include the Blinebry?

6 A. No, sir.

7 Q. Just the Yeso?

8 A. Just extend it.

9 Q. Just call it Yeso.

10 A. If you want to take it all the way to the  
11 Yeso, that would be great. I mean all the way down to  
12 the Tubb. But the pool extension at least to 5,000 feet  
13 is what we're asking for because we don't have ownership  
14 below 5,000 feet.

15 Q. But there's no geologic distinction at this  
16 5,000 feet?

17 A. No, sir, there is not.

18 Q. As you go deeper, is there a clear geologic  
19 distinction if you get, let's say, down to the --

20 A. Well, you take it to the Tubb, yeah. If  
21 you're going to expand it, if I were in your shoes, I  
22 would take that pool to the top of the Tubb. That would  
23 make geologic sense.

24 Q. That would mess up Conoco, because they would  
25 have to downhole commingle their wells.

1           A.     No.  They can produce from that, as well, all  
2     the way down to the Morrow.  This pool extension does not  
3     change -- it doesn't change anything, other than it being  
4     all the same.

5           Q.     Did you guys talk to our geologist in Hobbs or  
6     Artesia about this at all?

7           A.     Not to my recollection.

8           Q.     So they don't have a way in one way or the  
9     other about it?

10          A.     I do know that we got a letter from the BLM  
11     recommending this proposal, so they're backing us up to  
12     do this, yes, sir.

13                   EXAMINER JONES:  Okay.  I don't have any  
14     more questions.

15                   EXAMINER BROOKS:  Okay.  Anything further,  
16     Mr. Padilla.

17                   MR. PADILLA:  The only thing I have is I'd  
18     like to submit the affidavit notice submitted by Scott  
19     Hall.

20                   EXAMINER BROOKS:  To whom did you give  
21     notice?

22                   MR. PADILLA:  A whole bunch of people,  
23     actually.  If I may approach?

24                   EXAMINER BROOKS:  Okay.  Please.

25                   MR. PADILLA:  As I see, he has an exhibit

1 as to who got notice. And on the fourth page, apparently  
2 he has not received returned receipts from Tandem Energy  
3 and Anadarko, but everybody else has been given notice or  
4 should have notice.

5 EXAMINER BROOKS: Who was it that he  
6 hasn't received it from?

7 MR. PADILLA: Tandem Energy and Anadarko.  
8 That's shown on the fourth page of this.

9 EXAMINER BROOKS: Okay.

10 MR. PADILLA: I believe it's just a matter  
11 of receiving the return receipts

12 EXAMINER BROOKS: You're confident of the  
13 addresses on these?

14 MR. PADILLA: I can't say that, because I  
15 didn't send them. But, apparently, the attached  
16 letters --

17 EXAMINER BROOKS: We would request that  
18 you supplement the record when you receive those return  
19 receipts.

20 How were these -- are these people who have --  
21 these notice people, are they people who have overriding  
22 royalties in this unit?

23 MR. PADILLA: I can't speak to that, but  
24 Mr. Evans can probably answer that question.

25 EXAMINER BROOKS: Okay. Mr. Evans, could

1 you tell us how these notice people were selected for  
2 notice?

3 MR. EVANS: These are the offset operators  
4 around the unit, and also to the Deep Horizon, the  
5 ConocoPhillips and Grayburg Unit. And Anadarko and  
6 Tandem, we had incorrect addresses on them on the first  
7 mailout. On the second mailout, I corrected the  
8 addresses and they were sent out again within the time  
9 period.

10 EXAMINER BROOKS: When was the second  
11 notice sent?

12 MR. EVANS: I want to say --

13 MR. PADILLA: December 16th, according to  
14 this.

15 EXAMINER BROOKS: Okay. Yeah, that would  
16 be the 20 days. You did not notice overriding royalty  
17 interest owners in this case?

18 MR. EVANS: No, sir.

19 EXAMINER BROOKS: Okay. Thank you.  
20 Again, as I say, I'd request that when you receive those  
21 other return receipts, that you supplement the record and  
22 send us copies of those receipts.

23 MR. PADILLA: We will do that,  
24 Mr. Examiner.

25 EXAMINER BROOKS: Okay. I think that's

1 all I have. Mr. Jones, anything further?

2 EXAMINER JONES: No.

3 EXAMINER BROOKS: Okay. Very good. Case  
4 Number 14577 will be taken under advisement.

5 I'm sorry. I believe you forgot to tender  
6 your exhibits, Mr. Padilla, and I forgot to admit them.

7 Let's re-open the record in Case 14577. What  
8 exhibits are you offering?

9 MR. PADILLA: Exhibits 1, 2 and 3.

10 EXAMINER BROOKS: Okay. Exhibits 1, 2 and  
11 3 are admitted. And we'll take administrative notice of  
12 Exhibit Number 4. Exhibit 4 is the affidavit of notice.  
13 Case Number 14577 is taken under advisement.

14 (Exhibits 1, 2 and 3 were admitted.)

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I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14577  
heard by me on Jan 6, 2014  
David K. Brooks, Examiner  
Oil Conservation Division

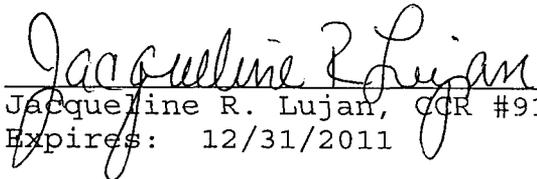
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on January 6, 2011, proceedings in  
the above captioned case were taken before me and that I  
did report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

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

WITNESS MY HAND this 18th day of January, 2011.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2011