

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:

CASE NO. 14607

APPLICATION OF MEWBOURNE OIL COMPANY FOR
APPROVAL OF A NON-STANDARD OIL SPACING AND
PRORATION UNIT, AN UNORTHODOX OIL WELL
LOCATION AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO,

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 6-11

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

MARCH 3, 2011

10:11 AM

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Hearing Examiner, and WILLIAM V. JONES, Technical
Examiner, on THURSDAY, MARCH 3, 2011, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South Street Francis Drive, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105

A P P E A R A N C E S

For the Applicant Mewbourne Oil Company:

JAMES BRUCE, Attorney at Law
 369 Montezuma, No. 213
 Santa Fe, New Mexico 87501
 (505) 982-2043

For Chisos Limited:

KELLAHIN AND KELLAHIN
 706 Gonzales Road
 Santa Fe, New Mexico 87501
 (505) 982-4285
 By: W. Thomas Kellahin

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1 EXAMINER BROOKS: At this time we'll call
2 Case Number 14607, the application of Mewbourne Oil
3 Company for approval of a non-standard oil spacing and
4 proration unit, an unorthodox well location, and
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the applicant. I have two
9 witnesses.

10 MR. KELLAHIN: I'm Tom Kellahin with the law
11 firm of Kellahin and Kellahin appearing this morning on
12 behalf of Chisos Limited.

13 EXAMINER BROOKS: Any other appearances?

14 MR. BRUCE: Mr. Examiner, I would note that
15 this is the case in which Mr. Brewer filed a written
16 entry of appearance.

17 EXAMINER BROOKS: Okay. I have Mr. Brewer's
18 written entry of appearance, and I have marked it for
19 Case Number 14607. And he's appearing on behalf of?

20 MR. BRUCE: I think Permian Basin Investment
21 Corporation.

22 EXAMINER BROOKS: Permian Basin Investment
23 Corporation.

24 Mr. Kellahin, you had filed a motion to dismiss
25 in this case. Are you wanting to stand on that or are

1 you waiving your motion?

2 MR. KELLAHIN: I would like to update our
3 position on the motions. This morning, with the
4 assistance of Mr. Corey Mitchell of Mewbourne, my client
5 has signed the necessary documents to be fully committed
6 on a voluntary basis on the spacing unit.

7 EXAMINER BROOKS: Okay.

8 MR. KELLAHIN: I think when Mr. Bruce's
9 testimony with Mr. Mitchell is completed there will be
10 an indication that they're being dropped with the
11 pooling case. With that understanding, there's no
12 reason to discuss or argue the motion.

13 EXAMINER BROOKS: Very good. You may
14 proceed. You have how many witnesses?

15 MR. BRUCE: I have two witnesses;
16 Mr. Mitchell and Mr. Cless, both of whom have been sworn
17 and qualified.

18 EXAMINER BROOKS: Very good. You may
19 proceed.

20 COREY MITCHELL

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Just for the record, would you state your name,

1 please?

2 A. Corey Mitchell.

3 Q. And you are a landman from Mewbourne?

4 A. Yes, sir.

5 Q. And are you familiar with the land matters
6 involved in this application?

7 A. Yes, sir.

8 Q. Mr. Mitchell, could you identify Exhibit 1 and
9 describe what Mewbourne seeks in this case?

10 A. Exhibit 1 is a Midland map land plat. It
11 identifies our proposed lateral, along with the spacing
12 unit. It also shows ownership in the area. We seek an
13 order approving a non-standard well location, unorthodox
14 surface location, as well as compulsory pooling for our
15 Bradley 30, Federal Number 1H well -- Fed Com Number 1H
16 well. Excuse me.

17 Q. And looking at the plat, what is the footage of
18 the surface location?

19 A. The surface location will be 1850 from the south
20 line and 330 from the west line of the adjoining section
21 29, which is Township 18 South, 30 East. And our bottom
22 hole location would be 1980 from south line and 330 from
23 the west line of Section 30 in the same township and
24 range.

25 Q. The producing interval will be wholly within the

1 north half/south half of Section 30; will it not?

2 A. Yes, sir.

3 Q. And why is the surface location in Section 29?

4 A. We at first attempted to get a surface location
5 in Section 30 but were unable to due to surface issues.
6 So we moved it over to Section 29 where we were not
7 granted the surface.

8 Q. And will the producing interval -- the terminus
9 or bottom hole location is going to be 330 from the west
10 line. Will the producing interval in the
11 northeast/southeast be at least 330 feet from the east
12 line of this section?

13 A. Yes, sir.

14 Q. Now, you requested an unorthodox location. Why
15 is that?

16 A. This well falls into the Santo Nino Bone Spring
17 pool, which requires well locations to be within
18 150 feet from the center of a quarter quarter section.
19 And we will not meet that requirement for this well.

20 Q. And just for the Examiner's information, is
21 Mewbourne's next case to change the footage requirements
22 in the Santo Nino Bone Spring Pool?

23 A. Yes, sir.

24 Q. What is the working interest ownership in the
25 well unit? And I refer you to Exhibit 2.

1 A. Exhibit 2 represents the tract ownership for the
2 spacing unit. Again, the people that we are looking to
3 pool are noted by an asterisk. And as mentioned before,
4 we would like to dismiss Chisos from this pooling.

5 Q. And you had reached a voluntary agreement with
6 them?

7 A. Yes, sir.

8 Q. And now that Chisos has joined up, what is the
9 approximate working interest being pooled in the well
10 unit?

11 A. It looks approximately like about 4 percent.

12 Q. What is Exhibit 3?

13 A. Exhibit 3 represents a summary of communications
14 with all the individuals we are seeking to pool today.

15 Q. Now, Section 30 is entirely federal acreage, is
16 it not?

17 A. Yes, sir.

18 Q. So these are all working interest owners as
19 opposed to any unleased mineral owners?

20 A. Correct.

21 Q. Copies of your correspondence are attached and
22 made part of Exhibit 3, is it not?

23 A. Yes, sir.

24 Q. And could you just run down basically the main
25 dates involved in either sending notice to these people

1 or trying to get them to join in?

2 A. Some of these people we started attempting to
3 obtain trades from back in May of 2010. And then others
4 we started communication with in November of 2010.

5 Q. And were all of these people sent AFEs with a
6 request to join in the well?

7 A. Yes, sir.

8 Q. And did your letters also set forth the
9 percentage interests that the people owned in this
10 section?

11 A. Yes, sir.

12 Q. Are any of these people identified on Exhibit 3
13 unlocatable?

14 A. Yes, sir.

15 Q. Which ones?

16 A. I believe it is the James K. Lusk and Martha L.
17 Lusk Trust, along with Bernard Jones.

18 Q. And what steps were taken to locate these people?

19 A. We attempted to locate them through previous
20 addresses we had. We used Internet searches, phone
21 record searches, and also county searches.

22 Q. And you were not able to come up with a current
23 address for any of these people?

24 A. That's correct. We were able to find several
25 addresses, all which are not current.

1 Q. In your opinion, has Mewbourne made a good faith
2 effort to obtain a voluntary joinder of the interest
3 owners of the well or to locate them?

4 A. Yes, sir.

5 Q. What is Exhibit 4?

6 A. Exhibit 4 is an AFE which represents the
7 estimated well cost for this well.

8 Q. And what is the completed well cost?

9 A. We have a dry hole cost of 2,164,500. And the
10 completed cost of 3,577,400.

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

14 A. Yes, sir.

15 Q. And do you request that Mewbourne be appointed
16 operator of the well?

17 A. Yes, sir.

18 Q. And what is your recommendation for the overhead
19 rates?

20 A. 6500 a month while drilling and 650 while
21 producing.

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

25 A. Yes, sir.

1 Q. Do you request that the rates be adjusted
2 periodically as provided by the COPAS accounting
3 procedure?

4 A. Yes, sir.

5 Q. And does Mewbourne request the maximum cost plus
6 200 percent risk charge if any interest owner does not
7 consent to the well?

8 A. Yes, sir.

9 Q. And were the parties, the locatable parties,
10 being pooled notified of this hearing?

11 A. Yes, sir.

12 Q. And is that reflected in my affidavit of notice
13 marked as Exhibit 5?

14 A. Yes, sir.

15 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is
16 the affidavit of publication from the Carlsbad newspaper
17 as against Bernard Jones and the Lusk Trust who are the
18 two unlocatable parties.

19 Q. (By Mr. Bruce) Mr. Mitchell, what is Exhibit 7?

20 A. Exhibit 7 shows the offset ownership as to the
21 spacing unit.

22 Q. And so the only operator offsetting this well,
23 other than Mewbourne, is DOG?

24 A. Yes, sir.

25 Q. And were they given notice of this application?

1 A. Yes, sir.

2 Q. And is that reflected in Exhibit 8?

3 A. Yes, sir.

4 Q. Were Exhibits 1 through 8 prepared by you or
5 under your supervision or compiled from company business
6 records?

7 A. Yes, sir.

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

11 A. Yes, sir.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 1 through 8.

14 EXAMINER BROOKS: 1 through 8 are admitted.

15 [Exhibits 1 through 8 admitted.]

16 EXAMINER BROOKS: Mr. Kellahin?

17 MR. KELLAHIN: Thank you, Mr. Brooks.

18 CROSS-EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Mitchell, a couple of questions for
21 clarification. When you look at the AFE, which is
22 Exhibit Number 4 -- do you have a copy of that?

23 A. Okay.

24 Q. It shows it was prepared by Mr. Lathan and it's
25 dated September of last year?

1 A. Yes, sir.

2 Q. 2010. To your knowledge, is it still accurate as
3 to wells drilled in this year?

4 A. It should be close, yes, sir. This is an
5 estimate of our cost, and we believe that it's in the
6 ballpark there.

7 Q. There hasn't been a replacement AFE?

8 A. No, sir, there has not.

9 Q. What is your anticipated spud date for this well?

10 A. I believe it is, if I'm not mistaken, June or
11 July.

12 Q. Have you applied for your APD yet?

13 A. Yes, sir.

14 Q. And that's on file yet?

15 A. I believe so.

16 Q. Do you know if it has been approved yet?

17 A. I'm not completely sure if it has or not.

18 MR. KELLAHIN: Thank you. No further
19 questions.

20 EXAMINER BROOKS: Okay. Your project area
21 is the north half of the south half of Section 30?

22 MR. MITCHELL: Yes, sir.

23 EXAMINER BROOKS: Township 18 South, Range
24 30 East?

25 MR. MITCHELL: Yes, sir.

1 EXAMINER BROOKS: And what is the target
2 formation?

3 MR. MITCHELL: It is the bone spring, the
4 second bone spring sand.

5 EXAMINER BROOKS: And that's in the Santo
6 Nino Bone Spring Pool?

7 MR. MITCHELL: Yes, sir.

8 EXAMINER BROOKS: Now, I didn't get the
9 coordinates of the bottom hole. I got the surface of
10 1850 from the south and 330 from the west to 29.

11 MR. MITCHELL: Yes, sir.

12 EXAMINER BROOKS: And the bottom hole is
13 what?

14 MR. MITCHELL: It is 1980 from the south
15 line and 330 from the west line of Section 30.

16 EXAMINER BROOKS: Okay. Now, do you know
17 what the point of penetration at the top of the bone
18 spring is?

19 MR. MITCHELL: No, sir. I'll have to defer
20 that to the geologist witness.

21 EXAMINER BROOKS: Okay. And what did you
22 say was the overhead you were requesting?

23 MR. MITCHELL: 6500 and 650.

24 EXAMINER BROOKS: Now, are you asking to
25 pool anything other than the bone spring or just the

1 bone spring.

2 MR. MITCHELL: Just the bone spring.

3 EXAMINER BROOKS: I believe that's all my
4 questions.

5 Mr. Jones?

6 EXAMINER JONES: The surface location, is
7 that because of sand dunes?

8 MR. MITCHELL: Yes, sir.

9 EXAMINER JONES: I remember those sand
10 dunes. And I can understand that. I guess as far as
11 how you're going to target the bone spring by drilling
12 the surface location there, are you going to drill a
13 pilot hole all the way down?

14 MR. MITCHELL: I do not believe so. But,
15 again, I would like to defer that to the geologist who
16 would be better able to answer that than myself.

17 EXAMINER JONES: I understand. And as far
18 as the build to get to the bottom hole true vertical
19 depth, are you going to use a real shallow build or are
20 you going to --

21 MR. MITCHELL: I would have to defer this
22 one as well.

23 EXAMINER JONES: I guess I don't have
24 anymore questions.

25 EXAMINER BROOKS: Okay. I need to ask about

1 these offsets, I realize. DOG's interest is in
2 Section 25 it says. And where is 25?

3 MR. MITCHELL: It's to the west of our
4 Section 30.

5 MR. BRUCE: 18 South 29.

6 EXAMINER BROOKS: Oh, okay. I see. I see.
7 You've got a label that covers it because I see 26 over
8 here. Okay. So they own the section to the west. Now,
9 Mewbourne operates all of Section 30?

10 MR. MITCHELL: Yes, sir.

11 EXAMINER BROOKS: Now, is the interest
12 ownership identical throughout Section 30?

13 MR. MITCHELL: Yes, sir.

14 EXAMINER BROOKS: And the impacted portion
15 of Section 29 also, is the working interest ownership
16 identical?

17 MR. MITCHELL: Mewbourne is the operator of
18 Section 29. But the working interest ownership is
19 different.

20 EXAMINER BROOKS: Okay. Well, I guess I
21 made Mr. Carr notify all the people who were working
22 interest owners, so I better make you do it too,
23 Mr. Bruce.

24 MR. BRUCE: That's simply out of character.
25 We will notify them. And hopefully if the next

1 application is granted we won't have to worry about that
2 in this pool anymore.

3 EXAMINER BROOKS: Okay. Very good. Well, I
4 guess there was a time when people thought that was the
5 thing to do. These pools that have 150 feet from the
6 center always cause problems. There's a bunch of them.

7 MR. BRUCE: It was pretty much routine to do
8 that.

9 MR. KELLAHIN: That was Mr. Carr's fault.
10 We did this years ago when he didn't know better.

11 EXAMINER BROOKS: You two are the ones that
12 are old enough to date back to when that was the case.

13 MR. KELLAHIN: I guarantee that was his
14 fault.

15 EXAMINER BROOKS: Well, is there anything
16 further?

17 MR. BRUCE: I do have a geologist.

18 EXAMINER BROOKS: Okay. Anything further
19 from this witness?

20 MR. BRUCE: No, sir.

21 EXAMINER BROOKS: Okay. You may proceed
22 with the next witness.

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NATE CLESS

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. For the record would you state your name?

A. Nate Cless.

Q. And you are a geologist from Mewbourne?

A. Yes, sir.

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

A. Yes, sir.

MR. BRUCE: Mr. Examiner, the geologist
exhibits are in the folder that I gave to you earlier.

Q. (By Mr. Bruce) Mr. Cless, what is Exhibit 9?

A. Exhibit 9 is a structure map on the base shale
marker right below the second bone spring sand. As you
can see, there is a slight dip to the southeast. This
map also shows the bone spring producers within this
area. They are highlighted in yellow. It also contains
cum gas, cum oil, cum water of the bone spring producers
in this area.

Q. Even though they are marked yellow as bone
spring, are some of these first bone spring sand or
second bone spring sand producers?

1 A. Yes, sir.

2 Q. Or both?

3 A. Many of them are coming up with the first and
4 second bone spring sands.

5 Q. Okay. And what is Exhibit 10?

6 A. Exhibit 10 is a gross isopach of the lower second
7 bone spring sand. Both Exhibit 9 and Exhibit 10 show
8 the location of the proposed Bradley 30 Fed Com 1H.
9 Also on Exhibit 10 you can see the location of my next
10 exhibit, which has the cross section on there. And you
11 can see on Exhibit 10 there is a relatively uniform
12 thickness of the lower second bone spring sand
13 throughout Section 30.

14 Q. I think I marked the cross section Exhibit 12
15 rather than 11. But move to Exhibit 12, your cross
16 section, and maybe discuss the zones of interest a
17 little further.

18 A. So here this cross section has wells 300 to 30H.
19 And these are two wells which are inside of the proposed
20 Bradley 30 Fed Com 1H. Our horizontal target is the
21 second portion lower sand, which on this exhibit
22 consists of the red interval and the green interval.
23 You can also see on this the perforations both of these
24 wells produced out of the second bone spring sand. And
25 you can see in the middle of the logs the locations of

1 the perforations.

2 Q. Based on your isopach and the cross section,
3 would you anticipate each of the quarter quarter
4 sections in the well unit to be productive from the bone
5 spring?

6 A. Yes, sir, I would.

7 Q. And would you expect them to be, at this point,
8 more or less equally productive?

9 A. Yes, sir, I would.

10 Q. What is Exhibit 11?

11 A. Exhibit 11 is the bone spring production data
12 table. This is all of the wells in the immediate area
13 that produce out of the bone spring interval. Again,
14 I've listed the well names, the operators, the APIs, the
15 locations of these wells, whether they are vertical or
16 horizontal, the completion of the bone spring, or the
17 data of the completion of the bone spring, as well as
18 what interval within the bone spring are they producing
19 from, whether it be the first sand or the second sand as
20 well as the cum oil, cum gas, and cum water.

21 Q. And looking at this, in the vertical well there
22 is certainly a large variability for that?

23 A. Yes, there is.

24 Q. And would you anticipate that you'd get better
25 results with the horizontal wellbore?

1 A. Yes, sir. We've had quite a bit of success
2 drilling second bone spring sands to the horizontal
3 wells, and so I would anticipate that we would have good
4 success again out there.

5 Q. And, finally, what is Exhibit 13?

6 A. Exhibit 13 is the horizontal -- the directional
7 drilling survey. As you can see on the first page of
8 this it has the surface location of our proposed well as
9 well as the bottom hole location of the proposed well.

10 MR. CLESS: And then to answer your question
11 from earlier, sir, this will have a normal build. And
12 our landing point will be at 250 feet from the east line
13 of the section. However, our first perforation will not
14 be until we are 330 feet, so we'll have a legal location
15 there.

16 EXAMINER BROOKS: So you will be penetrating
17 the top of the bone spring formation?

18 MR. CLESS: We will still be in the vertical
19 and so we will still be at the 1850 from the south and
20 330 from the west of section 29.

21 Q. (By Mr. Bruce) Mr. Cless, you mentioned that.
22 But maybe just go through a little bit how Mewbourne
23 completes these wells in this area.

24 A. We use a packer port system and so we were able
25 to place where we want our ports. Therefore, we will,

1 again, not put our first port until we are at a legal
2 location of 330 feet from the east line.

3 Q. And how many zones are fractured?

4 A. We will run roughly 20 ports in this interval and
5 they will be spaced roughly 220 feet apart.

6 Q. And for this well that is the same type of a
7 completion program that Mewbourne is using on other
8 wells in this area?

9 A. Yes, sir.

10 Q. Were Exhibits 9 through 13 prepared by you or
11 under your supervision or compiled by company business
12 records?

13 A. Yes, sir.

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

17 A. Yes, sir.

18 MR. BRUCE: Mr. Examiner, I move the
19 admission of Mewbourne's Exhibits 9 through 13.

20 MR. KELLAHIN: No objection.

21 EXAMINER BROOKS: Exhibits 9 through 13 are
22 admitted.

23 I have a question of your land witness I forgot
24 to ask. This is all one federal lease; is that correct?

25 [Exhibits 9 through 13 admitted.]

1 MR. MITCHELL: No, sir.

2 EXAMINER BROOKS: Oh, okay.

3 MR. MITCHELL: It's a couple of different
4 federal leases.

5 MR. BRUCE: Mr. Examiner, if you look at
6 Exhibit 1, I think you'll see that it appears there will
7 three federal leases; one on the east half, one on the
8 east half/west half, and one on the --

9 EXAMINER BROOKS: So where is the ownership
10 of the pool parties? Which leases, are they in one
11 lease or are they --

12 MR. MITCHELL: They're in multiple leases.

13 EXAMINER BROOKS: So some pool parties in
14 one part of the project area and some in the others?

15 MR. MITCHELL: Yes, sir.

16 EXAMINER BROOKS: Okay. Thank you.

17 I don't believe I have any questions for this
18 witness. Mr. Jones?

19 Oh, I'm sorry. Mr. Kellahin?

20 MR. KELLAHIN: Thank you, Mr. Brooks.

21 CROSS-EXAMINATION

22 BY MR. KELLAHIN:

23 Q. Mr. Cless, would you refer to your Exhibit 10.

24 A. Yes, sir.

25 Q. I'm looking at your lower gross sand isopach. Is

1 this the interval that's depicted as a horizontal target
2 on Exhibit 12?

3 A. Yes, sir, it is.

4 Q. So that's identical as I move from one exhibit to
5 the other?

6 A. Yes, sir.

7 Q. In selecting among the four possible east/west
8 spacing units, is this the optimum of the four if you
9 choose the north half, south half as your first spacing
10 unit across the sand?

11 A. We believe this was a good place for our first
12 well because there were no vertical completions in that
13 area, yet we still had vertical completions to the north
14 and to the south of us.

15 Q. Does it matter to you that the Bradley 30 is on
16 the northern portion of the contour line that says
17 119 feet as opposed to more centralized to that
18 thickness?

19 A. No, sir. Like I said, I believe that we do have
20 production both to the north and to the south of us.
21 And I believe that's relatively a small matter.

22 Q. Is there a particular geologic factor or
23 component that allows you to make your decision about
24 which orientation and which of the spacing units to use?

25 A. No, sir. We have drilled both north/south and

1 east/west and we have had success with both of them.

2 Q. I heard in one of the earlier cases that you
3 looked for a porosity value?

4 A. Yes, sir, we do. Yeah, we'll make net porosity
5 maps also.

6 Q. Do you recall what you believe to be the net
7 porosity value for this particular well?

8 A. You know, percentage-wise, if you look at the
9 cross section in Exhibit 12, these tend to have 10 to
10 12 percent net porosity in them, which is pretty
11 standard throughout the area.

12 MR. KELLAHIN: Thanks for the
13 clarifications.

14 No further questions.

15 EXAMINER BROOKS: I have no questions.

16 Mr. Jones?

17 EXAMINER JONES: I forgot to ask you. Where
18 did you do your field geology if you went to Kansas
19 State?

20 MR. CLESS: Kansas State doesn't have a
21 field geology there so I went to a different school. I
22 went to the University of Akron. And we had a camp up
23 in the Black Hills in South Dakota.

24 EXAMINER JONES: So it was hard rock stuff?

25 MR. CLESS: Yes, sir.

1 EXAMINER JONES: You're in the soft rock now
2 though.

3 MR. CLESS: Yes, sir.

4 EXAMINER JONES: This bone spring, tell me a
5 little bit about this. I know it sits below the
6 Delaware. So it's just sourced from --

7 MR. CLESS: It's sourced from the north
8 coming off the shale. We believe the source sand is
9 from the north and then the main productive intervals
10 will make porosity maps. And that will be kind of where
11 we will identify our better areas to look at and better
12 areas to drill wells in.

13 EXAMINER JONES: Did this one include a
14 pilot hole?

15 MR. CLESS: No, sir, it does not.

16 EXAMINER JONES: No pilot hole. But you
17 guys have control?

18 MR. CLESS: Yes, sir. We have not drilled a
19 pilot hole in any of our bone spring sand horizontals
20 and we have not had a problem landing in the proper
21 zone.

22 EXAMINER JONES: And you have a gamma ray
23 down there?

24 MR. CLESS: Yeah, we'll run a log as we're
25 running it. And then as we're drilling in the lateral,

1 we'll also have a gamma ray log.

2 EXAMINER JONES: But you run a post log
3 after you hit the hole drilled?

4 MR. CLESS: Sometimes in the vertical wells
5 we'll -- or in the vertical part of the well, just
6 before we kick off we'll run a log up to surface. And
7 then as we're drilling our curve in the lateral, we log
8 how we drill.

9 EXAMINER JONES: What kind of logs?

10 MR. CLESS: We'll use mainly just a
11 gamma ray log. But sometimes we'll also have a
12 resistivity log in there with us. And that will kind of
13 help us identify some of the better zones, better areas
14 of porosity.

15 EXAMINER JONES: So you're out there looking
16 at it the whole time or do they stream it back into your
17 office?

18 MR. CLESS: Yeah, we take surveys every
19 connection. And so every 32 feet we'll get a survey and
20 an updated log. So we check it probably every hour or
21 two hours.

22 EXAMINER JONES: And it looks like you're
23 drilling in the low and you're drilling up a little bit?

24 MR. CLESS: Yes, sir.

25 EXAMINER JONES: Do you do that for

1 production engineers' benefit?

2 MR. CLESS: This was more just surface
3 needs. And we like to land our wells where we have
4 control. If you notice there is not as much control in
5 the western half of the section so, therefore, it's just
6 easier to land it over in the eastern half of the
7 section.

8 EXAMINER JONES: Okay. What if you were
9 drilling along and you didn't get any shows? I guess
10 you know where you're going here. Have you ever had a
11 situation where you only drilled through a couple of
12 normal spacing units and then shut it off?

13 MR. CLESS: We have never shut one of these
14 bone spring wells. We have even drilled wells where our
15 show has not been that great, however, we have still
16 completed them and we still made successful economic
17 wells.

18 EXAMINER JONES: Do you think these fracture
19 jobs are getting up into enough of a pay that --

20 MR. CLESS: Yes, I do believe that. I
21 believe that's why we kind of land in the lower part of
22 our sand. I believe that we frac up into the sands
23 above us and they are also contributing to our wells.

24 EXAMINER JONES: And your completion
25 engineers must be pretty good about watching their frac

1 jobs. And what I mean is the frac job as it's going on.

2 MR. CLESS: Yes.

3 EXAMINER JONES: With the model and
4 everything?

5 MR. CLESS: Yeah. We have had -- I don't
6 believe we've really had many problems with our
7 completions in these horizontals. They do a good job.

8 EXAMINER JONES: Do you get a lot of sand
9 back when you produce?

10 MR. CLESS: Not really. Some wells we do.
11 But for the most part, we really don't get a whole lot.

12 EXAMINER JONES: It looks like your tubing
13 is not down -- you know, it's always the optimum if you
14 have your production equipment down --

15 MR. CLESS: Down tip.

16 EXAMINER JONES: You know, at your formation
17 or below it even. But in this case it looks like on
18 your AFE you only have 7600 feet or 2 and 7/8s. So that
19 means it's up hole a ways.

20 MR. CLESS: Yeah. I don't feel qualified to
21 answer questions about the AFE.

22 EXAMINER JONES: I don't have anymore
23 questions. Thank you very much.

24 EXAMINER BROOKS: Okay. Thank you.

25 Case Number 14607 will be continued until March

1 31st for purposes of notice.

2 [Case 14607 was continued at 10:43 AM.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14607
heard by me on 3-3-11

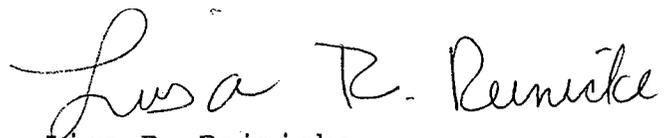
David K. Bunker, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, 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 and was reduced to printed form under my direct supervision.

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 whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
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License expires: 8/21/2011

Ex count: