

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. 13,324

APPLICATION OF EOG RESOURCES, INC.,)
FOR COMPULSORY POOLING AND DIRECTIONAL)
DRILLING, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 19th, 2004

Santa Fe, New Mexico

2004 SEP 2 AM 9 58

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 19th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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August 19th, 2004
Examiner Hearing
CASE NO. 13,324

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:17 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 13,324. This is the Application of EOG Resources,
5 Inc., for compulsory pooling and directional drilling, Eddy
6 County, New Mexico.

7 At this time I'll call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P. We represent EOG Resources in this matter,
11 and I have one witness.

12 EXAMINER STOGNER: Any other appearances?

13 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
14 the Santa Fe law firm of Kellahin and Kellahin, appearing
15 on behalf of SDX Resources, Inc. I have no witnesses.

16 EXAMINER STOGNER: Any other appearances?

17 Will the witness please stand to be sworn at this
18 time?

19 (Thereupon, the witness was sworn.)

20 EXAMINER STOGNER: Is there any need for opening
21 statements at this time, Mr. Carr or Mr. Kellahin?

22 MR. CARR: No, sir.

23 MR. KELLAHIN: No, sir.

24 EXAMINER STOGNER: Mr. Carr, you may continue.

25 MR. CARR: At this time we call Patrick Tower.

1 PATRICK J. TOWER,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Mr. Tower, would you state your full name for the
7 record?

8 A. Patrick J. Tower.

9 Q. And where do you reside?

10 A. Midland, Texas.

11 Q. By whom are you employed?

12 A. EOG Resources, Inc.

13 Q. And what is your current position with EOG
14 Resources?

15 A. Division land specialist.

16 Q. Mr. Tower, have you previously testified before
17 this Division?

18 A. Yes.

19 Q. At the time of that testimony, were your
20 credentials as an expert in petroleum land matters accepted
21 and made a matter of record?

22 A. Yes, they were.

23 Q. Are you familiar with the Application filed in
24 this case?

25 A. Yes, I am.

1 Q. Are you familiar with the status of the lands
2 that are the subject of this hearing?

3 A. Yes, I am.

4 MR. CARR: May it please the Examiner, we tender
5 Mr. Tower as an expert in petroleum land matters.

6 EXAMINER STOGNER: Mr. Tower is so qualified.

7 Q. (By Mr. Carr) Would you briefly state for the
8 Examiner what it is that EOG Resources seeks with this
9 Application?

10 A. Yes, EOG is seeking an order pooling all mineral
11 interests from the surface to the base of the Morrow
12 formation in the north half of Section 32, Township 19
13 South, Range 28 East, in Eddy County, New Mexico, and
14 specifically the north half for all formations or pools
15 developed on 320-acre spacing, which would include but not
16 be limited to the Winchester-Morrow Gas Pool, the
17 Undesignated Winchester-Atoka Gas Pool and the Undesignated
18 Burton Flats-Strawn Gas Pool, and also as to the northwest
19 quarter for all formations developed on 160-acre spacing.

20 The State 32 Com Well Number 2 is the well to be
21 dedicated. It will be directionally drilled from a surface
22 location 2404 feet from the north and 1083 feet from the
23 west line, to a standard bottomhole gas well location 1980
24 feet from the north line and 660 feet from the west line,
25 to test these 320 formations.

1 There are no current 80-acre pools in the area,
2 and the tract we're on is 40 acres owned by a separate
3 company, so those are not included.

4 Q. Mr. Tower, the proposed State 32 Com Well Number
5 2 will be at a standard location in all the potentially
6 productive formations --

7 A. Correct.

8 Q. -- is that correct?

9 A. That is correct.

10 Q. How many parties is EOG attempting to pool in
11 this case?

12 A. Three parties.

13 Q. And what is the status, generally, of your
14 current negotiations with each of these parties?

15 A. Two of the parties -- and we'll get into the
16 details here in a minute -- two of the parties we have
17 reached a tentative agreement, so as soon as the contracts
18 are signed they will be dismissed. So I'm anticipating
19 those will happen.

20 Primarily we're up here -- We have one company,
21 Jetta, that has these lands in a larger sales package and
22 cannot pull it out of this package until they go through
23 that process, so they have advised us they have no choice
24 but for us to force pool them because their hands are tied
25 as far as doing anything on this.

1 And so primarily we're here for the one company.
2 The other two will likely be dismissed, but we don't have
3 the signed agreements yet.

4 Q. And they are SDX and Nadel and Gussman?

5 A. SDX Resources and Nadel and Gussman are the two
6 that we anticipate agreements with.

7 Q. Mr. Tower, when these agreements are signed will
8 you advise the Division so they can be removed from the
9 pooling Application?

10 A. Yes, we will.

11 Q. Let's go to what has been marked EOG Exhibit
12 Number 1. Would you identify that and review it for Mr.
13 Stogner?

14 A. Exhibit Number 1 is a land map that in red
15 outline shows the spacing unit on a 320-acre basis. It
16 shows the location of the well, the red dot. And in a
17 minute I'll show another exhibit showing the directional,
18 but in that 40 there it depicts it. It shows the general
19 ownership in the area.

20 Q. Mr. Tower, in Unit B of Section 32 there's a well
21 symbol. Could you explain what that well is?

22 A. Yeah, that is the State 32 Com Number 1. It
23 originally produced from the Morrow with a north-half
24 spacing unit. It was operated by SDX. It has not produced
25 in a number of years.

1 Q. What is the current status of the north-half
2 unit?

3 A. The north half is kind of a mess, and that's kind
4 of what we're doing here to clean it up. Originally the
5 com agreement that covered that first well has terminated
6 several years back. Two of the 40 acres in there, in fact,
7 expired, and that's where Nadel and Gussman has picked up
8 their interest, because they fell out of the spacing unit
9 at that time, they expired and were released by Nadel and
10 Gussman. So in essence, we're trying to clean it up to
11 redrill another Morrow well.

12 Q. If this Application is approved and the north
13 half of the second pooled and EOG named operator for the
14 well down in southwest of the northwest of the section,
15 will EOG need an exception to Rule 104.C.(2) to approve two
16 operators on the spacing unit?

17 A. No.

18 Q. And why is that?

19 A. We have reached an agreement with SDX that is now
20 being finalized. They are the -- still on paper, the
21 Division-designated operator. However, this is not an
22 issue because they have agreed to designate EOG as the
23 operator for this north half, and so therefore it will not
24 be an issue once we file the change-of-operator form.

25 Q. So there's going to be a change-of-operator form

1 changing operations under this unit as it stands, to EOG --

2 A. That is --

3 Q. -- and you're going to pool it also to pick up
4 the interests of --

5 A. That is correct.

6 Q. -- Jetta.

7 A. And you'll be the operator?

8 A. That is correct.

9 Q. Let's go to what has been marked Exhibit Number
10 2. Would you identify that and review it for Mr. Stogner?

11 A. Yeah, Exhibit Number 2 is a C-102, and basically
12 it depicts a surveyor's plat that will show you the
13 bottomhole and the surface location, showing the
14 directional well, basically the locations I mentioned a few
15 minutes ago.

16 Q. Why are you directionally drilling the well?

17 A. These are on state lands, and there was a defined
18 archaeological site by the SHIPO or State Historic
19 Presentation group, and therefore we had to move it to stay
20 out of that site, to accommodate them and basically kick it
21 back to the bottomhole we had originally targeted.

22 Q. And you will be at a standard location when you
23 intersect the subject formations in the deep gas zone?

24 A. Yes, we will.

25 Q. And you will survey the well as required by

1 Division Rules?

2 A. Yes, we will.

3 Q. What is the primary objective in the well?

4 A. The Morrow.

5 Q. And that's in the Winchester-Morrow Gas Pool?

6 A. That's correct.

7 Q. Would you identify Exhibit Number 3?

8 A. Exhibit Number 3 is basically a listing of those
9 interests that are subject to this pooling, again the three
10 companies I mentioned and the working interests that each
11 of those companies represents.

12 Q. You've set out after each name the percentage
13 working interest owned. Are these numbers, these
14 percentages, identical in the 320-acre north half unit as
15 they are in the 160-acre --

16 A. That is correct.

17 Q. -- unit?

18 A. They'll be the same in both spacing units.

19 Q. And all other interest owners are voluntarily
20 committed to the well?

21 A. All other, yes, that's correct.

22 Q. And Yates had some interest, and they have
23 voluntarily --

24 A. Yes, Yates's partner, and they have joined.

25 Q. Let's go to EOG Exhibit Number 4. It consists of

1 a packet of correspondence, and on top of the
2 correspondence is a summary of EOG's efforts to reach
3 voluntary agreement with each of the parties still on the
4 pooling application. Would you review that for --

5 A. Yes, the --

6 Q. -- Mr. Stogner?

7 A. -- the top clipped page is a summary itemized by
8 each company of all the contacts and discussions between
9 EOG and these particular companies, and then behind that is
10 the various correspondence and certified receipts with the
11 well proposals to back it up.

12 First contact was made June 2nd, and as I stated
13 prior to this, Nadel and Gussman and SDX, we tend to
14 anticipate agreements. And primarily Jetta is the reason
15 we are here, because they just cannot do anything at this
16 time and advised us we'll have to force pool.

17 Q. All right, Mr. Tower, let's go to what has been
18 marked Exhibit Number 5. Would you identify this, please?

19 A. Yes. Exhibit 5 is the AFE or cost estimate for
20 this directional well. The estimated dryhole cost is
21 \$1,072,000, with an estimated total well completion cost of
22 \$1,741,600 for the completed well on a vertical basis as an
23 11,500-foot test.

24 Q. Mr. Tower, are these costs in line with what is
25 charged by other operators for similar wells in the area?

1 A. Yes, they are.

2 Q. Is EOG Exhibit Number 6 a copy of the accounting
3 procedure for joint operations that is part of the joint
4 operating agreement proposed for this well?

5 A. Yes, it is.

6 Q. And this is a COPAS form?

7 A. Yes, this is a COPAS, standard COPAS, 1984 form.

8 Q. Does it provide for periodic adjustment of
9 overhead and administrative charges?

10 A. Yes, it does.

11 Q. Does EOG request that the overhead and
12 administrative costs set by the order that results from
13 this hearing be adjusted in accordance with these COPAS
14 procedures?

15 A. Yes, we do.

16 Q. Have you made an estimate of the overhead and
17 administrative costs?

18 A. Yes, we're recommending a drilling well rate of
19 \$6000 and a producing well rate of \$600, and these are in
20 line with the Ernst and Young survey.

21 Q. Do you recommend that these figures be
22 incorporated into the order that results from the hearing?

23 A. Yes, we do.

24 Q. Does EOG Resources request that in accordance
25 with Division Rules the maximum charge for risk of 200

1 percent be imposed on each working interest that is not
2 voluntarily committed to the well?

3 A. Yes, we do.

4 Q. Does EOG request to be designated operator of the
5 well?

6 A. Yes, we do.

7 Q. In your opinion, will approval of this
8 Application and the drilling of the proposed well be in the
9 best interests of conservation, the prevention of waste and
10 the protection of correlative rights?

11 A. Yes.

12 Q. And how soon does EOG plan to actually spud the
13 well?

14 A. We have it on rig schedule to spud September 11th
15 of this year.

16 Q. Is Exhibit Number 6 [sic] an affidavit with
17 attached letters confirming that notice of this hearing has
18 been provided in accordance with Division Rules?

19 A. Yes, it is.

20 Q. It also includes a copy of the affidavit of
21 publication for this hearing, does it not?

22 A. Yes.

23 Q. But you also have been able to get return
24 receipts from all interests that would conceivably be
25 subject to the order in this case?

1 A. Yes, that's correct.

2 Q. Were Exhibits 1 through 6 either prepared by you
3 or compiled under your direction and supervision?

4 A. Yes, they were.

5 MR. CARR: May it please the Examiner, at this
6 time we would move the admission into evidence of EOG
7 Resources Exhibits 1 through 6.

8 EXAMINER STOGNER: I think we need to go back and
9 make sure we have our exhibits again.

10 MR. CARR: Oh, okay.

11 EXAMINER STOGNER: Okay, Exhibit -- Which exhibit
12 did you identify as Exhibit Number 6?

13 MR. CARR: That is the notice affidavit.

14 EXAMINER STOGNER: Okay, do you want to confirm
15 that?

16 MR. CARR: Well, it's marked Exhibit Number 6.

17 EXAMINER STOGNER: Okay, and I have Number 6 as
18 the accounting procedure.

19 MR. CARR: Number 6 is the procedure for joint
20 accounting, 5 is the AFE and 4 is a packet of
21 correspondence, 3 the summary of the ownership, 2 is the
22 C-102, and 1 is the plat. So we need to move Exhibits 1
23 through 7.

24 EXAMINER STOGNER: Okay, Exhibits 1 through 7,
25 then, will be admitted --

1 MR. CARR: Yes.

2 EXAMINER STOGNER: -- into evidence.

3 MR. CARR: Thank you.

4 EXAMINER STOGNER: Thank you, sir.

5 MR. CARR: That concludes my direct of Mr. Tower.

6 EXAMINER STOGNER: Thank you, Mr. Carr.

7 Mr. Kellahin, your witness.

8 MR. KELLAHIN: No questions, Mr. Examiner.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. Tower, do you know why the bottomhole
12 location was chose? Is that geological?

13 A. Yes, it's subsurface geology.

14 Q. So any movement of the surface location for a
15 straight hole to the north would have taken it off your
16 geological feature; is that right?

17 A. Yeah, my understanding, yes, that was the optimum
18 location, trying to get a legal, that they preferred, and
19 it is based on geology. So that's why I put it there.

20 Q. Now, you stated earlier that the subsurface
21 location would be standard to all potential producing
22 reservoirs?

23 A. Yes.

24 Q. So I'm assuming, then, since you didn't submit to
25 me a proposed directional survey, that it will be a dogleg?

1 A. Yes, I believe that -- I don't have the -- we can
2 submit something. I don't have it with me, but I know they
3 have looked at it and have it planned to hit the primary
4 objectives at a legal location, I do know that.

5 EXAMINER STOGNER: Mr. Carr or Mr. Tower,
6 subsequent to the hearing would you please provide that for
7 me --

8 MR. CARR: Yes, we can.

9 EXAMINER STOGNER: -- and Mr. Tower, if you would
10 have your geologist mark potential zones, the Abo being one
11 of them, which would be on 160, and of course the Wolfcamp
12 where the kickoff is going to be --

13 THE WITNESS: Okay.

14 MR. CARR: We can provide that.

15 EXAMINER STOGNER: If you'd also provide me the
16 schematic form in that --

17 MR. CARR: We'll do --

18 THE WITNESS: Okay.

19 EXAMINER STOGNER: -- it would sure help.

20 THE WITNESS: Yeah, we can do that.

21 Q. (By Examiner Stogner) Okay, the directional
22 well. Let's take a look now at Exhibit Number 5. How much
23 more cost estimate do you have on this well for the
24 directional drill, as opposed to a straight-hole drill?

25 A. It -- I can give you exact if you'd like. It's

1 approximately a \$200,000 difference. But if you'd like,
2 Mike, I can give you exact -- The original dryhole cost
3 estimate for a vertical was \$870,900. The original
4 estimate again for vertical completed was \$1,539,300.

5 Q. Okay. Now, has an APD been filed with the
6 Artesia Office?

7 A. Yes, it has.

8 Q. Has that been approved, do you know?

9 A. To be honest, I don't know. I think it's either
10 going to be approved or shortly. I know they've been after
11 it, but to be honest I'll have to let you know. I know
12 it's filed, and I don't anticipate any problems with it
13 because we've been out on the ground. I just don't know if
14 we've got the approval back yet.

15 Q. I don't think that will be necessary, but I will
16 take administrative notice of the well file, that and our
17 records in the computer. You wouldn't happen to know an
18 API number, would you?

19 A. I sure don't, but I again can provide if you need
20 it.

21 Q. If you can provide it, no problem --

22 A. Yeah --

23 Q. -- through Mr. Carr, or --

24 A. -- we will.

25 Q. -- there again, I'll take administrative notice.

1 A. We will, we'll get it to you.

2 Q. Referring to Exhibit Number 1, the well in Unit B
3 as in Bravo --

4 A. Yes.

5 Q. -- that SDX, do you know when that well last
6 produced?

7 A. Not exactly, other than the communitization
8 agreement, I know, terminated in the year 2000, because the
9 Nadel and Gussman leases, if you look at those two 40s,
10 those expired at that time and they were leased in November
11 of 2000, so it was about that vintage that that happened.
12 The other lease that the well is on is HBP by other lands.

13 Q. Now, do you know when those well was drilled?

14 A. It was -- Again, I'll have to get back -- I know
15 it was during -- I think Southland Royalty, probably in the
16 1980s.

17 Q. In the 1980s. There again, I'll take
18 administrative notice of that.

19 A. But again, I can get you exact, but it's some
20 time back.

21 EXAMINER STOGNER: That won't be necessary, but I
22 will take administrative notice of that well for reference
23 purposes in the order.

24 I have no other questions, Mr. Kellahin.

25 Mr. Carr, do you have any other questions for Mr.

1 Tower?

2 MR. CARR: No, sir, I do not.

3 EXAMINER STOGNER: You may be excused.

4 THE WITNESS: Thank you.

5 EXAMINER STOGNER: Does anybody else have
6 anything further in Case 13,324?

7 MR. CARR: That concludes our presentation.

8 EXAMINER STOGNER: Okay, I made a note of your
9 potential spud date, and I'll take that into consideration.

10 And with that, I'll take Case 13,324 under
11 advisement.

12 (Thereupon, these proceedings were concluded at
13 8:41 a.m.)

14 * * *

15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
the Examiner hearing of Case No. 13324
18 heard by me on 12/19 August 2004.

19  , Examiner
Oil Conservation Division


CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 20th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006