

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:

ORIGINAL

APPLICATION OF OGX RESOURCES, LLC,
FOR APPROVAL OF A NONSTANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

Case No. 14661

TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

RECEIVED OGD
2011 SEP 27 P 2:56

BEFORE: DAVID K. BROOKS, Legal Examiner
RICHARD EZEANYIM, Technical Examiner

September 15, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, September 15, 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

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW
P.O. Box 1056
Santa Fe, New Mexico 87504
(505)982-2043

WITNESSES:

PAGE

Garland Lang:

Direct examination by Mr. Bruce	4
Examination by Examiner Ezeanyim	13
Examination by Examiner Brooks	15
Further examination by Mr. Bruce	18
Further examination by Examiner Brooks	19

William Hardie:

Direct examination by Mr. Bruce	20
Examination by Examiner Ezeanyim	26
Examination by Examiner Brooks	27

I N D E X

PAGE

EXHIBITS 1 THROUGH 5 ADMITTED	12
EXHIBITS 6 AND 7 ADMITTED	26

REPORTER'S CERTIFICATE	28
------------------------	----

1 EXAMINER BROOKS: At this time we will
2 call Case Number 14661, application of OGX Resources,
3 LLC, for approval of a nonstandard oil spacing and
4 proration unit and compulsory pooling, Eddy County, New
5 Mexico. This case was reopened.

6 Call for appearances.

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

10 EXAMINER BROOKS: Very good. Would you
11 have the witnesses sworn, please?

12 (Two witnesses were sworn.)

13 EXAMINER BROOKS: Any other appearances?

14 MR. BRUCE: Mr. Examiner, if you will
15 recall, you heard this case originally.

16 EXAMINER BROOKS: I did.

17 MR. BRUCE: And the compulsory pooling was
18 sought for a well unit essentially comprised of five
19 quarter/quarter sections which crossed the section line.
20 The application was denied, I think, essentially because
21 it contained five quarter/quarter sections, rather than
22 what has, in most areas, become standard, four
23 quarter/quarter sections across the section line.

24 EXAMINER BROOKS: Yeah. I believe two
25 factors were involved in the denial. One was that it

1 included five, rather than four quarter/quarter sections
 2 and consequently crossed a section line. The other being
 3 that one quarter/quarter section within the section in
 4 which three of the quarter/quarter sections were located
 5 was omitted, and for reasons that were not explained at
 6 the time of the original hearing.

7 MR. BRUCE: We are here today to explain
 8 why we think the application should be granted and why no
 9 one will be harmed by the formation of the units in these
 10 two sections.

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

13 GARLAND LANG

14 Having been first duly sworn, testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Please state your name and city of residence.

18 A. Garland Lang, Midland, Texas.

19 Q. Who do you work for and in what capacity?

20 A. OGX Resources. I'm the land manager.

21 Q. Have you previously testified before the
 22 Division as a landman?

23 A. I have.

24 Q. And were your credentials as a landman
 25 accepted as a matter of record?

1 A. They were.

2 Q. Are you familiar with the land matters
3 involved in this case?

4 A. I am.

5 Q. And not only this case, but other wells being
6 drilled in Sections 30 and 31 of 26 South, 29 East?

7 A. I am.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Lang as an expert petroleum landman.

10 EXAMINER BROOKS: So accepted.

11 Q. (By Mr. Bruce) Mr. Lang, if you could look at
12 Exhibit 1, which is a land plat. I've taken the liberty
13 of drawing some rectangles on there. What well are we
14 here for today, and what is its location?

15 A. It's in the west half/west half of Sections 31
16 and 30, save and except for the northwest of Section 30.
17 And that's our Copperhead 31 Fee A Number 1H.

18 Q. Now, the lines I've denoted are drawn on here.
19 There are three dashed lines and two solid lines. Over
20 on the east side of these sections is a solid line. What
21 well is that?

22 A. Copperhead 31 Fed Com Number 1H.

23 Q. Has that been drilled?

24 A. It's been drilled and completed and producing.

25 Q. Was that well the subject of a forced pool

1 hearing before the Division?

2 A. It was.

3 Q. In looking at this, could you describe -- OGX
4 owns interests throughout the entire two sections;
5 correct?

6 A. Correct.

7 Q. Could you describe its development plans,
8 including the two wells you've just discussed and other
9 wells that you believe you will be drilling in the
10 future?

11 A. Yes. The Copperhead 31 Fee A Number 1H well
12 has been drilled, and it's waiting on completion. We've
13 got an application, a permit, submitted to the BLM for
14 the second well in the east half of 30 and 31, being our
15 Copperhead 31 Fed Com Number 2H, which is going to be
16 just like where that dotted line is in the west half of
17 the east half of those two tracts.

18 Then we've got a well planned west of that,
19 which will be our Copperhead 31 Fee A Number 2H Well,
20 which will be just east of the well that we're trying to
21 get approved today.

22 And then we've got another well planned that's
23 going east/west in the north half/north half of Section
24 30. That will be our Copperhead 30 Fee Number 1H.

25 Q. And OGX intends to drill up the entire two

1 sections of land?

2 A. We do.

3 Q. And we'll get some cost factors in a minute.
4 But one concern of the Division with this well, with the
5 well we're here for today in the west half/west half of
6 these sections, it excluded the -- I actually believe
7 that's Lot 1, the northwest northwest/northwest quarter
8 of Section 30?

9 A. Correct.

10 Q. Now, in looking at the land ownership here, is
11 the northwest quarter of Section 30 a single tract?

12 A. Yes.

13 Q. And does OGX own interest in that tract?

14 A. We own 68 percent of that.

15 Q. Over in the northeast quarter of Section 30,
16 where there's also already an excluded quarter/quarter
17 section, does OGX own -- is that a single tract?

18 A. That's a single tract, 160 acres.

19 Q. Does OGX own interest in that section?

20 A. We own 100 percent of that.

21 EXAMINER BROOKS: Just for clarification,
22 when you ask, "Is something a single tract," do you mean
23 that it's common ownership throughout that tract?

24 MR. BRUCE: That's what I'm intending.

25 EXAMINER BROOKS: I'm assuming that's what you

1 meant.

2 Q. (By Mr. Bruce) Can you confirm that,
3 Mr. Lang?

4 A. Yes, it is common.

5 EXAMINER EZEANYIM: Before you continue,
6 Mr. Lang, you should be talking to the Bench, not your
7 attorney, so we understand what you're saying. Okay?

8 Q. (By Mr. Bruce) Mr. Lang, you've just
9 testified in that single northeast quarter, which is a
10 single tract with uniform ownership, you and your working
11 interest partners own 100 percent of the working
12 interest?

13 A. Correct.

14 Q. So when you drilled that first well over on
15 the east half/east half of these sections, you weren't
16 trying to exclude anybody from that tract?

17 A. No.

18 Q. And in drilling the well on the west half/west
19 half, again, since there's -- you're not trying to
20 exclude anybody there also?

21 A. No.

22 Q. And so when maybe the final well is drilled
23 covering the north half/north half of Section 30,
24 everyone in these two sections will have interest at
25 least in certain wells?

1 A. Correct.

2 Q. Now, is there also a cost factor in the
3 reasons that you are drilling four wells with five
4 quarter/quarter sections and then one final well with
5 four quarter/quarter sections?

6 A. We felt like we'd be eliminating an additional
7 well. Instead of drilling six wells, four in Section 30
8 and two in 31, that we would be drilling five wells
9 instead of six, which based on these exhibits here, our
10 two AFEs, one is for a longer lateral.

11 Q. The first one, Exhibit 2, is kind of just a
12 form AFE for a 160-acre well?

13 A. That's right. That would be the AFE for the
14 Copperhead 30 Fee Number 1H.

15 Q. And what is the completed well cost of that
16 well?

17 A. Estimated, \$6,128,180.

18 EXAMINER BROOKS: Which well are you
19 talking about?

20 THE WITNESS: The one going east/west in
21 the north half/north half.

22 Q. (By Mr. Bruce) And then Exhibit 3 is an AFE
23 for a five quarter/quarter section well; is it not?

24 A. Correct.

25 Q. What is the completed well cost?

1 A. Completed well cost there is \$6,941,590.

2 Q. And then what does Exhibit 4 reflect?

3 A. Exhibit 4 is just a comparison if we drilled
4 six shorter lateral wells, 160-acre spacing, we'd spend
5 \$36,769,080. And if we drill five wells, with one of
6 them being a 160-acre proration unit, and four wells with
7 the 200 acres or, you know, five 40s, we'd spend
8 \$33,894,540. So we have a savings of 2,874,540.

9 Q. And that's a substantial cost savings?

10 A. Um-hum.

11 Q. You do mention here that five 40s -- actually,
12 Section 31 is a -- it's not only a short section, the
13 bottom tier of that is comprised of small lots; is it
14 not?

15 A. Correct.

16 Q. So these 200-acre well units you're talking
17 about are more on the order of 185 acres or so?

18 A. Yes. Correct.

19 Q. So in summary, there's -- well, look back at
20 Exhibit 1 now, Mr. Lang. If at this point -- because two
21 wells have already been drilled; correct?

22 A. Correct.

23 Q. If you then had to, in the future, dedicate
24 only 160-acre well units, there would be some excluded
25 acreage in the future; correct?

1 A. Correct. In Section 31 there would be for
2 sure.

3 Q. And somewhere along the way, there would be
4 excluded acreage?

5 A. Yes.

6 Q. So again, allowing development to proceed as
7 planned will not exclude any interest owner from a well
8 or well unit; correct?

9 A. No, it will not.

10 Q. And it will save pretty close to \$3 million?

11 A. Correct.

12 Q. And who is the only person being force pooled
13 in the well unit at this time?

14 A. It's an unleased mineral owner in Lot 2 of
15 Section 30, which is in the southwest of the northwest
16 quarter, Jo Beth Covin Ware, a small interest.

17 Q. And when you -- what is her approximate
18 interest in the well unit, 185-acre well unit?

19 While you're looking that up, in the first
20 case, evidence of your contacts with that interest owner
21 was submitted to the Division; correct?

22 A. Correct.

23 MR. BRUCE: If I may, Mr. Examiner?

24 THE WITNESS: Do you have that interest?

25 Oh, okay. 1.35575 percent in the unit.

1 Q. In the well unit?

2 A. Yes, sir.

3 MR. BRUCE: Okay. Mr. Examiner, I did
4 send notice of the reopened case to Ms. Ware, and that is
5 submitted as Exhibit 5, and she did receive actual
6 notice.

7 Since I had given notice previously to the
8 offsets, I didn't send notice again to the offsets
9 because no offset objected.

10 EXAMINER BROOKS: Right. I think that's
11 appropriate.

12 Q. (By Mr. Bruce) Were Exhibits 1 through 4
13 prepared by you or under your supervision?

14 A. They were.

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

18 A. It is.

19 MR. BRUCE: Mr. Examiner, I move the
20 admission of Exhibits 1 through 4, plus my notice
21 affidavit, Exhibit 5.

22 EXAMINER BROOKS: Okay. Exhibits 1
23 through 5 will be admitted.

24 (Exhibits 1 through 5 were admitted.)

25 MR. BRUCE: I have no further questions of

1 the witness.

2 EXAMINER BROOKS: Mr. Ezeanyim, do you
3 have any questions?

4 EXAMINATION

5 BY EXAMINER EZEANYIM:

6 Q. Let's go to Exhibit 4. I'm trying to
7 understand what you're trying to demonstrate, Mr. Lang.

8 Could you explain that to the Examiners what
9 you are trying to do there? How many of these wells are
10 on five units?

11 A. Four wells on --

12 Q. What are those four that are currently on five
13 units? Where are those here on this analysis?

14 A. Wells 2, 3, 4 and 5.

15 Q. Okay. Are they all in the same section?

16 A. They're in Sections 30 and 31 north/south.

17 Q. Okay. Now, which among those wells is the one
18 that is involved in this case?

19 A. It is.

20 Q. Is it in here, the well that was denied
21 before?

22 A. Yes. It's considered one of these wells.

23 Q. Is it in here? What is the number of that?
24 What is the well number?

25 A. I didn't really number each well. It's just

1 -- I guess you could say Well 3, because we've already
2 drilled Well 2.

3 This is just an assumption, based on the
4 length of the lateral. The longer laterals cost 6.941.
5 And we've got four of them to drill, and then we do the
6 east/west shorter lateral. If you look at the plat,
7 you'll see where the four laterals will be, the long
8 ones, and then the shorter lateral will be at east/west
9 in the north half/north half of 30.

10 Q. So your contention is that we previously
11 approved five units on some of these wells? And now,
12 come this well that is in question, it was denied? Is
13 that what you're saying? And those wells drilled on five
14 units, you have no problem?

15 A. Yeah. We've only drilled two. We have two
16 more to drill.

17 Q. Okay. On five units?

18 A. On five units.

19 Q. And the cost estimate here from the AFE --

20 A. Yes.

21 Q. -- what you are trying to demonstrate is that
22 you spend more money if you drill on five units than if
23 you drill on four?

24 A. Yes. We're saying we're saving money by
25 drilling less wells. We're drilling five wells, as

1 opposed to six, in order to develop this entire Section
2 30 and 31.

3 Q. And there is no correlative rights issues?

4 A. I don't believe so.

5 Q. Okay. You talked about ownership. What is
6 the ownership in that Section 30 and 31? You own 68
7 percent? Section 30 and 31, what is the ownership OGX
8 owns? Is the ownership identical?

9 A. No. Our interest varies in each well just
10 because of the size of the proration unit.

11 Q. What is OGX's interest there on those two
12 units; do you know?

13 A. The well we're talking about, OGX would own 43
14 percent of the well.

15 Q. Okay.

16 A. And we've got a couple of other working
17 interest partners in the well.

18 EXAMINER EZEANYIM: Okay. I have nothing
19 further.

20 EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. Now, these wells that you list on Exhibit 4,
23 those are really hypothetical wells; are they not? They
24 don't refer to any -- there's no Well Number 1, 2, 3, 4,
25 5 and 6?

1 A. No, no. That's just based on the size.

2 Q. The only well that's actually been drilled, if
3 I correctly understand it, is the well in the east half
4 of the east half?

5 A. That's been drilled and completed and
6 producing.

7 Q. Right.

8 A. The well here in question, we have drilled it.

9 Q. Okay. So you've drilled the subject well?

10 A. Yes, sir.

11 Q. The well in -- that has occurred since the
12 first hearing in this case, is it right that you drilled
13 that well? Or had you already drilled it at the time of
14 the first?

15 A. I believe we had started the well at the time.

16 Q. Okay. Actually, even before that, when you
17 first drilled this well over in the east half of the east
18 half, to fully develop this section, then on an east/west
19 basis, you would have had to have drilled seven wells;
20 would you not? Because it would take -- the fact that
21 that well existed precluded a six-well east/west pattern?

22 A. I guess I need to think about that for a
23 minute. I mean I guess you'd have six east/west wells if
24 we hadn't drilled this first well, yeah.

25 Q. Okay. That's what I thought. So not only is

1 this factor affected by the truncation of Section 31, but
2 it's also affected by the existing well in the east half
3 of the east half, which more or less dictates the pattern
4 of development here?

5 A. It did. By drilling that well, it kind of
6 dictated the pattern of what we were going to do.

7 Q. Now, all the working interest owners, except
8 this one that you mentioned, is that interest -- is that
9 an unleased mineral interest?

10 A. It is an unleased mineral interest.

11 Q. So all the other working interest owners,
12 other than that one, are on board with this?

13 A. Yes.

14 Q. Including Chesapeake?

15 A. Including Chesapeake. They signed the AFE and
16 the JOA and participated.

17 Q. They appeared in opposition at the first
18 hearing?

19 A. Yes.

20 Q. But they're no longer opposed?

21 A. That's right.

22 Q. Did you say that OGX owns 100 percent of the
23 working interest in the northwest quarter of 30?

24 A. No. We own -- together with OXY USA, we own
25 approximately 68 percent of the northwest quarter.

1 Q. But the parties that are participating in this
2 well own 100 percent?

3 A. Correct, except for the unleased mineral
4 owner.

5 Q. The unleased mineral ownership is where?

6 A. It's in Lot 2, which is the fifth 40.

7 Q. And that's the equivalent of which --

8 A. The southwest of the northwest.

9 Q. That's what I thought you said. So the
10 unleased mineral owner doesn't own any interest in the
11 northwest quarter of Section 30?

12 A. Yes, the whole entire --

13 Q. The southwest of the northwest?

14 A. Yeah.

15 Q. Okay. I see what you're saying. I think I
16 understand it now. Thank you.

17 MR. BRUCE: Let me ask just a couple of
18 follow-up questions, Mr. Examiner.

19 FURTHER EXAMINATION

20 BY MR. BRUCE:

21 Q. Does Ms. Ware own throughout the northwest
22 quarter?

23 A. She does.

24 MR. BRUCE: So I think what Mr. Lang was
25 saying is that before this well unit she owns in Lot 2,

1 but she also owned throughout the northwest quarter.

2 EXAMINER BROOKS: Okay, I didn't
3 understand that.

4 Q. (By Mr. Bruce) Mr. Lang, when you commenced
5 drilling the well we're here for today out in this area,
6 were there a number of lease expiration issues?

7 A. We do have lease expirations. That's why we
8 had to drill then.

9 MR. BRUCE: That's all I have.

10 EXAMINER BROOKS: One other question.

11 FURTHER EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. Is this all fee land?

14 A. No.

15 Q. What is the status?

16 A. It's all fee, except for Lots 6 and 7 in the
17 southeast part of 31. That's a federal lease.

18 Q. Southeast part of 31? So that is not in the
19 unit that we would be force pooling in this case?

20 A. Correct.

21 EXAMINER BROOKS: Thank you.

22 MR. BRUCE: Yeah. Mr. Examiner, I believe
23 Lots 6 and 7 are, in essence, the south half/north half
24 of Section 31.

25 Q. (By Examiner Brooks) Are those state or

1 federal?

2 A. Federal, Lots 6 and 7.

3 Q. So no state lands involved?

4 A. No state lands. The rest of that is fee.

5 EXAMINER EZEANYIM: Are you still asking
6 for compulsory pooling?

7 MR. BRUCE: Yes

8 EXAMINER EZEANYIM: Maybe somebody will
9 tell us -- maybe we have on the previous order what your
10 overhead rates are.

11 EXAMINER BROOKS: It was all presented in
12 the previous hearing.

13 EXAMINER EZEANYIM: So we have that?

14 EXAMINER BROOKS: We have that. It's all
15 the usual things that they present about the
16 negotiations, and the overhead rates were presented in
17 the original hearing.

18 EXAMINER EZEANYIM: Okay.

19 MR. BRUCE: Okay.

20 WILLIAM HARDIE

21 Having been first duly sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Please state your name for the record.

25 A. William Hardie.

1 Q. Where do you reside?

2 A. Midland, Texas.

3 Q. Who do you work for, and in what capacity?

4 A. I am the exploration manager for OGX
5 Resources.

6 Q. By trade, are you a geologist?

7 A. I am.

8 Q. Have you previously testified before the
9 Division as a petroleum geologist?

10 A. Yes.

11 Q. And were you recognized as an expert
12 geologist?

13 A. I was.

14 Q. Are you familiar with the geology involved in
15 this application?

16 A. I am.

17 MR. BRUCE: Mr. Examiner, I tender
18 Mr. Hardie as an expert petroleum geologist.

19 EXAMINER BROOKS: So recognized.

20 Q. (By Mr. Bruce) Mr. Hardie, could you identify
21 Exhibit 6 for the Examiners and discuss the geology in
22 this area and primary zone of interest, which I believe
23 is the Avalon Bone Springs?

24 A. It is the Avalon. Exhibit 6 is actually two
25 maps. The map on the left is isopach of the shale within

1 the Avalon section. The Avalon section is about 1,000
2 feet thick in gross thickness, but within that thousand
3 feet of gross thickness, there is a combination of both
4 organic rich silt stones and detrital carbonates.

5 So the net map that you see on the left is
6 simply the thickness of the organic rich silt stones,
7 which are not only the source, but the reservoir for the
8 Avalon. And this map shows that the thickness across
9 this part of Eddy County ranges from around 250 feet of
10 net thickness to over 550 feet of net thickness.

11 I've also labeled Sections 31 and 30 and the
12 development that OGX has planned in that area. The well
13 on the west half/west half is the Copperhead Fee A Number
14 1H, which is the well that's involved in this hearing.
15 And then on the east half/east half is the Copperhead 31
16 Fed Com Number 1H, and that well is drilled and
17 completed. The red sticks denote the future locations
18 that Mr. Lang testified about previously.

19 The map on the right is simply a structure map
20 of the base of the Avalon formation, and there's nothing
21 particularly interesting about the structure in this
22 area. It's simply a regional dip, and it's back to the
23 east at 100 feet per mile. So there is really no real
24 structural component to the Avalon that's worthy of note
25 here.

1 Q. And do the maps locate a line of
2 cross-sections here?

3 A. They do. On both maps that line of
4 cross-section is shown in red in prime, and it's Exhibit
5 7.

6 Q. Let's go to Exhibit 7, the cross-section. And
7 describe what is shown that OGX is testing in these
8 wells.

9 A. Exhibit 7 is an east/west cross-section. And
10 it was drawn through wells in this play that have --
11 actually, where the operator has drilled pilot wells. So
12 it's possible to look at the logs through this section.

13 Most operators now are not drilling pilot
14 wells. They build their curve before they get to the
15 Avalon and then enter the Avalon horizontally. So it's
16 impossible to get logs, which is why this cross-section
17 doesn't pass through OGX's acreage.

18 But it does demonstrate the stratigraphy of
19 the Avalon. It's shown in the middle of the
20 cross-section. And I've color coded the Avalon section
21 such that the blue represents the carbonate debris flow
22 lithology, and the brown represents the organic silt
23 stone. And of course the organic silt stone is the
24 target.

25 And for each of those wells, I've also shown

1 where the operator chose to go horizontal in the section.
2 That's designated by the green markers, and it
3 demonstrates that operators are going horizontal in many
4 parts of the overall formation.

5 The other point that is worth making, and it
6 also refers back to the isopach, is that it's -- and I've
7 testified to this before. It's simply impossible for one
8 lateral to drain this entire 550 feet of net section that
9 we encounter in this part of the world.

10 Therefore, there's essentially no difference
11 in the value or the quality of the acreage across this
12 entire leasehold. It would take multiple laterals
13 stacked one on top of the other in order to adequately
14 drain the entire section. So that each of these wells is
15 expected to make a virtually identical amount of reserves
16 across the entire leasehold OGX has.

17 Q. In looking at the isopach, looking at both
18 Sections 30 and 31, you're anticipating these wells will
19 encounter 500 to 550 feet of the zone of interest?

20 A. That's correct. They will encounter it, but
21 they will certainly not drain all of that.

22 Q. But in looking at this, in drilling -- in
23 developing these two sections this way, you weren't
24 trying to exclude anyone because of some poor geology in
25 one or more of the quarter/quarter sections?

1 A. We were not trying to exclude anyone. This is
2 perhaps the thickest Avalon section in all of Southeast
3 New Mexico in these two sections. So it's very good
4 quality rock all the way across the lease.

5 Q. So geologically, there would be no reason why
6 you'd want to avoid drilling any of the quarter/quarter
7 sections?

8 A. That's correct.

9 Q. The other thing on what you just alluded to,
10 and I think you discussed this in one of the prior
11 hearings, there is the possibility of OGX and other
12 operators going back and drilling a second or in some
13 places maybe even a third horizontal well in a well unit
14 where you've already tested one of the intervals?

15 A. I anticipate that will happen in the near
16 future. It has not happened yet, that I know of.

17 Q. Were Exhibits 6 and 7 prepared by you,
18 Mr. Hardie?

19 A. Yes.

20 Q. In your opinion, is the granting of this
21 application in the interest of conservation and the
22 prevention of waste?

23 A. It is.

24 MR. BRUCE: Mr. Examiner, I move the
25 admission of Exhibits 6 and 7.

1 EXAMINER BROOKS: 6 and 7 are admitted.

2 (Exhibits 6 and 7 were admitted.)

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

5 EXAMINER BROOKS: Mr. Ezeanyim?

6 EXAMINATION

7 BY EXAMINER EZEANYIM:

8 Q. What is the cutoff porosity on this Avalon
9 shale?

10 A. I'm not using a porosity cutoff. I'm using a
11 gamma ray cutoff.

12 Q. What is that?

13 A. That is 100 API units.

14 Q. Is 100 API there?

15 A. That's a pretty severe cutoff on the organic
16 rich -- it's difficult to map reservoirs adequately,
17 unconventional reservoirs, because the porosity is not
18 realistic. It's measured on the logs. It's actually
19 measuring approximately 20 percent porosity, when we know
20 from cores that the actual porosity is about 6 percent.
21 So porosity cutoffs are inappropriate.

22 Q. The first sand, is that productive at all?

23 A. The first Bone Spring sand is the unit below
24 the Avalon.

25 Q. So there is nothing happening there?

1 A. It is actually a target of development about
2 12 miles to the north of these leases.

3 Q. Okay. Right now your target is the Avalon
4 shale? The Avalon shale is where you are right now?

5 A. That's correct.

6 EXAMINER EZEANYIM: Thanks.

7 EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. In the order that the Division previously
10 entered in this case, the Division stated that your
11 testimony in the previous hearing did not indicate that
12 the differences in thickness shown on the isopach were of
13 any particular significance. And I gather from your
14 testimony today that that was an accurate conclusion?

15 A. Yes, sir.

16 EXAMINER BROOKS: That's all I have.

17 MR. BRUCE: I have nothing further in this
18 case.

19 EXAMINER BROOKS: Very good then.

20 Case Number 14661 will be taken under advisement.

21 * * *

22
23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case No. 14661,
 heard by me on Sept 15, 2011.
 David K. Booth Examiner
 Oil & Gas

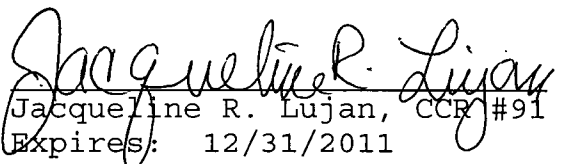
REPORTER'S CERTIFICATE

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on September 15, 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 26th day of September,
2011.


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