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- 1 EXAMINER JONES: I'll call Case 14723,
- 2 Application of EOG Resources, Inc., for approval of a
- 3 nonstandard oil spacing and proration unit and compulsory
- 4 pooling, Eddy County, New Mexico. Call for appearances?
- 5 MR. BRUCE: Mr. Examiner, Jim Bruce, of
- 6 Santa Fe, representing the applicant. I have two
- 7 witnesses, the same two witnesses who testified in the
- 8 prior matters of record.
- 9 EXAMINER JONES: The record will show that
- 10 both witnesses are already sworn.
- 11 DOUGLAS HURLBUT
- 12 Having been first duly sworn, testified as follows:
- 13 DIRECT EXAMINATION
- 14 BY MR. BRUCE:
- 15 Q. Could you briefly identify Exhibit 1,
- 16 Mr. Hurlbut?
- 17 A. Exhibit 1 is a land plat that shows our
- 18 unitized JOA created working interest unit, which
- 19 consists of the east half of 17 and the west half of 16.
- 20 Q. And we're here today to force pool a
- 21 horizontal Bone Spring well?
- 22 A. Correct.
- Q. And what is the legal description for this
- 24 well?
- 25 A. It's a 160-acre project area, and it is the

- 1 south half of the northeast quarter of 17 and the south
- 2 half of northwest quarter of 16 in 1830.
- Q. And Mr. Hurlbut, I've discussed with you some
- 4 issues regarding crossing section lines for matters of
- 5 force pooling these wells?
- 6 A. Correct.
- 7 Q. Will the geologist also discuss the reason why
- 8 these wells in this area have been formed the way -- the
- 9 well units have been formed the way they are?
- 10 A. Correct, he will.
- 11 Q. But looking at your well unit, there are some
- 12 existing wells that have already been drilled to the west
- of this well; correct?
- 14 A. Correct.
- 15 Q. And those take 80 acres out of one section and
- 16 add 80 acres to another section?
- 17 A. Correct. It's just a similar deal that we did
- 18 back -- oh, it's been a couple of years ago. We've
- 19 already drilled four wells in there, four horizontal
- 20 wells in the Bone Spring.
- Q. Just from a land standpoint, insofar as any
- 22 issues that may come up about potentially stranding
- 23 anyone, if you look in the west half of 18, which was
- 24 excluded or not put in the well units, for those Section
- 25 17 and 18 wells, it looks like EOG controls that acreage?

- 1 A. Well, at one time we drilled a Morrow well in
- 2 there, but that well got turned over to Yates. Yates
- 3 subsequently, after that, completed a Bone Spring well in
- 4 there. So that's what the history on that west half is.
- 5 Q. If you look on the east half of Section 16, it
- 6 lists Marbob. That is now COG?
- 7 A. Correct.
- 8 Q. And EOG looks like it owns some interest in
- 9 that east half of Section 16?
- 10 A. Yes, as well as -- yeah, COG.
- 11 Q. And has COG agreed to the well units that are
- 12 being proposed by you in the east half of 17 and the west
- 13 half of 16?
- 14 A. Yes, they have. They signed a JOA.
- Q. So they own an interest in these wells?
- 16 A. Correct. Yeah. We pooled and combined the
- 17 leases under the JOA, and they had their interest around
- 18 about 30 percent.
- 19 Q. So nobody is being excluded from --
- 20 A. Oh, no.
- 21 Q. -- these proposed well units against their
- 22 will?
- 23 A. No.
- Q. Who do you seek to -- well, would you identify
- 25 Exhibit 2 for the Examiners?

- 1 A. Okay. Exhibit 2 was a well proposal that I
- 2 sent out to all of the interest owners in that proposed
- 3 unit.
- 4 Q. Have all the -- well, let's make it simple.
- 5 Which of these interest owners have not yet joined in the
- 6 well?
- 7 A. Margaret Rhea, Wirt Rhea Estate.
- Q. And that's on the final page of the well
- 9 proposal; correct?
- 10 A. Correct. It says, "Wirt Rhea, deceased." His
- 11 wife is Margaret Rhea.
- 12 Q. Those are the only interests that have not
- 13 joined in the well?
- 14 A. Correct.
- 15 Q. What is the approximate working interest of
- 16 the --
- 17 A. From what I can figure, she's got like a half
- 18 of 1 percent working interest in that 160 project area.
- 19 Her interest is actually derived from an interest in the
- 20 northeast quarter of 17. I mean that's -- you know,
- 21 that's what I contribute -- that's where her interest
- 22 came from.
- Q. Have you attempted any other contacts with
- 24 Margaret Rhea?
- 25 A. Yes, I have. I have sent her this proposal by

- 1 certified mail, which we sent all the other ones by
- 2 certified mail. And this one we never did get a
- 3 response, and finally the certified mail package came
- 4 back. She didn't pick it up.
- 5 And she's also over there in Section -- the
- 6 other section to the west in that JOA. She's in that
- 7 deal. And I sent a well proposal on the 18 5H, which we
- 8 recently drilled over there, and same thing happened
- 9 there. It never got picked up. So I thought, "That's
- 10 strange."
- 11 So I called her on the phone. I had her phone
- 12 number. She lives in Dallas. And I think I called her
- 13 at least a couple dozen times. I mean I called and
- 14 called and called until I was blue in the face. She used
- 15 to have an answering machine. No answering machine,
- 16 nothing picks up.
- So I started thinking maybe she's working,
- 18 maybe she don't want to pick up her certified mail. So I
- 19 thought I'll call her on a weekend, Saturday, Sunday,
- 20 after hours, whatever. No answer.
- 21 So then I thought maybe if I send her just a
- 22 regular letter in the mail, maybe she didn't want to pick
- 23 up certified mail. So I sent her a regular letter in the
- 24 mail about a month ago, and she never responded. I said,
- 25 "Please give me a call. I need to discuss with you the

- 1 formation of a unit over there in which you have acreage.
- 2 Please give me a call." And I've talked to her in the
- 3 past. I don't know where she's gone.
- 4 Q. Did you check with your division or department
- 5 to see if she was in other wells operated by you?
- 6 A. She is in the unit to the west. She's in the
- 7 Sand Tank 18 Fed Com Number 2H, 3H and 4H. She's in
- 8 those wells and she participated as a working interest
- 9 owner.
- 10 Q. And she is being paid at that same address?
- 11 A. Correct. It's just kind of a mystery to me
- 12 where she's at.
- 13 Q. In your opinion, have you made a good-faith
- 14 effort to obtain voluntary joinder of the estate and
- 15 Mrs. Rhea in the well?
- 16 A. I have.
- 17 Q. What is Exhibit 3?
- 18 A. That is the AFE that we sent out to all the
- 19 working interest owners for the cost of the well, how
- 20 much the well was going to cost to drill and complete the
- 21 dry hole or completed costs.
- Q. And the completed cost is about four and a
- 23 third million dollars. Is that cost fair and reasonable
- 24 and in line with the costs of other wells drilled of this
- 25 depth?

- 1 A. Yes.
- Q. And you have immediate experience in the
- 3 offset wells, drilling these wells?
- 4 A. Yes.
- 5 Q. So EOG has a good handle on the costs?
- 6 A. Correct.
- 7 Q. What overhead rates do you request?
- 8 A. In that particular one, 6,000 drilling well
- 9 rates and 600 producing well rates.
- 10 Q. Are those overhead rates common for wells of
- 11 this depth in this area?
- 12 A. Yes.
- Q. Do you request that the maximum cost plus 200
- 14 percent penalty be applied against any nonconsenting
- 15 interest owners?
- 16 A. Yes, I do.
- 17 MR. BRUCE: Mr. Examiner, Exhibit 4 is my
- 18 notice letter to Margaret Rhea and the Estate of Wirt
- 19 Rhea, the same address used by Mr. Hurlbut, but you can
- 20 see this one was picked up. So she did receive actual
- 21 notice --
- THE WITNESS: She did?
- MR. BRUCE: -- of the application.
- 24 THE WITNESS: Oh, she did?
- MR. BRUCE: That's Exhibit 4.

- 1 EXAMINER BROOKS: It looks like it.
- THE WITNESS: I don't know why she picked
- 3 up yours and not mine.
- 4 MR. BRUCE: I'm much more charming.
- 5 THE WITNESS: I guess she didn't like me.
- Q. (By Mr. Bruce) Does Exhibit 5 accurately
- 7 reflect the offset operators to the proposed well unit?
- 8 A. Yes, it does.
- 9 Q. And so other than EOG, the only offset
- 10 operator is COG?
- 11 A. Correct. Not to be confused with COG.
- MR. BRUCE: Mr. Examiner, Exhibit 6 is my
- 13 affidavit of notice to COG, and they received actual
- 14 notice.
- Q. (By Mr. Bruce) Mr. Hurlbut, were Exhibits 1
- 16 through 6 prepared by you or under your supervision or
- 17 compiled within company business records?
- 18 A. Yes.
- 19 Q. In your opinion, is the granting of this
- 20 application in the interest of conservation and the
- 21 prevention of waste?
- 22 A. Yes, it is.
- MR. BRUCE: Mr. Examiner, I move the
- 24 admission of Exhibits 1 through 6.
- 25 EXAMINER JONES: Exhibits 1 through 6 will

- 1 be admitted.
- 2 (Exhibits 1 through 6 were admitted.)
- 3 EXAMINATION
- 4 BY EXAMINER JONES:
- 5 Q. Margaret Rhea is -- so she does own a small,
- 6 small working interest?
- 7 A. Yes, she has a small working interest.
- 8 Q. Over what time period did you try to contact
- 9 her? Because this one was signed on the 8th of --
- 10 A. When I see that, that's kind of like news to
- 11 me. Because she has not signed any of my certified cards
- 12 or sent them back. Like I said, I tried to call her, no
- 13 response. I'm trying to think over what period of time.
- 14 I guess May 19th was the date that we sent the letters
- 15 out to the working interest owners, including her. So
- 16 I've been trying to get something from her since, from
- 17 that date forward or a little after that date.
- 18 Q. Maybe she was out of the country or something.
- 19 A. I don't get it.
- 20 EXAMINER JONES: Well, I'll turn this over
- 21 to David.
- 22 EXAMINATION
- 23 BY EXAMINER BROOKS:
- Q. You told me, but -- told us, but I've
- 25 forgotten. What percentage interest does Ms. Rhea own?

- 1 A. She has like a half of 1 percent working
- 2 interest in the well.
- 3 Q. When you say, "working interest," does she
- 4 have an interest in the lease?
- 5 A. She's a leasehold owner. She's not a mineral
- 6 owner.
- 7 Q. Not an unleased mineral interest?
- 8 A. Correct.
- 9 Q. Is this all fee land, or is there any State
- 10 land involved?
- 11 A. There's no fee lands involved at all.
- 12 Q. No fee lands?
- 13 A. No fee lands? The west half of 16 is all
- 14 State, and the west half of 17 is all federal.
- 15 MR. BRUCE: You mean the east half of 17.
- 16 THE WITNESS: I'm sorry. The east half of
- 17 17 is all federal, and the west half of 16 is State.
- 18 Q. (By Examiner Brooks) Okay. 17 is the section
- 19 that you have split between your two sets of horizontals;
- 20 right? You've drilled horizontals off to the west in 17
- 21 and 18; is that right? Are those EOG wells?
- 22 A. Okay. The plat that you have there, yeah, the
- 23 unit to the west, which is kind of outlined there, kind
- 24 of dark outlined, 18 and 17, that's our first unit that
- 25 we created in there under a JOA. And Margaret Rhea has

- 1 an interest in that, and she did sign the JOA in that
- 2 case. But over there in this new unit that we
- 3 put together by sending out the May 19th letter with a
- 4 JOA creating this unit, she has not responded to that.
- 5 Q. The east half of 17 is State lands. Is the
- 6 west half State lands?
- 7 A. No, no. The east half of 17 is all federal.
- 8 O. That's federal. The west half of 16 is State?
- A. State. In fact, all of 16 is State.
- 10 Q. Okay. Is the Commissioner okay with what
- 11 you're doing down there?
- 12 A. I've not been told anything different.
- 13 EXAMINER BROOKS: Very good.
- 14 EXAMINATION
- 15 BY EXAMINER JONES:
- 16 O. You have other wells that have crossed section
- 17 lines to the west there; is that right? Am I seeing that
- 18 correctly?
- 19 A. Correct. That stuff in 18, they're drilled
- in -- they're called Sand Tank 18. They went from 18
- 21 into 17.
- 22 Q. There's four wells that have crossed the
- 23 section?
- 24 A. Correct. They're all second Bone Spring
- 25 wells. We may be going in there and possibly down the

- 1 line maybe going in there and drilling some first Bone
- 2 Spring horizontal wells on the same -- like on the same
- 3 pad, but not in the same borehole.
- 4 Q. Do you know offhand if any of those were State
- 5 lands?
- 6 A. In which section?
- Q. Section 18.
- 8 A. 18 is all federal, 17 is all federal, and 16
- 9 is all State.
- 10 O. So that was all federal? 17 and 18 are
- 11 federal?
- 12 A. Correct.
- Q. This is the first time in this area you
- 14 crossed State -- drilled into State lands across state
- 15 lines, state section lines?
- 16 A. Correct.
- 17 EXAMINER JONES: Okay. I have no more
- 18 questions.
- 19 EXAMINER BROOKS: Nor do I.
- THE WITNESS: Predominantly in all
- 21 townships in New Mexico, it's not gospel, but
- 22 predominantly the State is Section 16. Section 16 is
- 23 probably predominantly State. I think there was four
- 24 sections that they ended up getting, and they were
- 25 Sections 2, 16, 32 and 36.

- 1 EXAMINER BROOKS: There are a lot of
- 2 places where they traded off?
- 3 THE WITNESS: Right, they've done trades
- 4 back and forth over a period of time. So that kind of
- 5 changes. But predominantly, they were given four
- 6 sections out of each township.
- 7 EXAMINER JONES: Thank you.
- JAMES MORRIS
- 9 Having been first duly sworn, testified as follows:
- 10 DIRECT EXAMINATION
- 11 BY MR. BRUCE:
- 12 Q. Mr. Morris, could you identify Exhibit 7 for
- 13 the Examiner?
- 14 A. Exhibit 7 is a structure map on the base of
- 15 the second Bone Spring F sand, which is the objective
- 16 horizon. It shows that the formation is dipping off one
- 17 to two degrees to the southeast.
- 18 Q. What is Exhibit 8?
- 19 A. Exhibit 8 is a gross interval icopach of the
- 20 pay sand that shows the -- there's going to be about 50
- 21 foot across the well path of the 17 3H well.
- 22 Q. From a geologic standpoint, we've already
- 23 discussed that the west half of 18 was not included in
- 24 some horizontal wellbores. Is there a geologic reason
- 25 for that?

- 1 A. Yes. You can see the well in the west half
- 2 there shows a number of 50 feet gross interval overall.
- 3 These other wells have 70 or 80 feet. We wanted to be in
- 4 the thickest part of the reservoir, so that's why we put
- 5 the wells in the east half and drilled across into
- 6 Section 17, to optimize our production rates and have a
- 7 better chance of making a good well.
- 8 Q. Of course stand-up wells could be drilled in
- 9 the west half of 18; could they not?
- 10 A. Yes, they could.
- 11 Q. And what is Exhibit 9?
- 12 A. Exhibit 9 is a cross-section that goes from
- 13 Section 18. It takes the south-most well of Section 18
- 14 through the 17-3 pilot hole well that we had drilled and
- 15 includes the Sand Tank 17 Fed 1 and the well in Section
- 16 16. And it shows the continuity of the second Bone
- 17 Spring F sand across this whole interval, and it's about
- 18 50 foot thick overall. It's shown in green.
- 19 Q. So the thickness going from Section 18 east
- 20 into Section 16 is pretty similar thickness?
- 21 A. Right, similar thickness overall.
- 22 Q. And you would expect each quarter/quarter
- 23 section to contribute to production?
- 24 A. Yes, I would.
- Q. And finally, what is Exhibit 10?

- 1 A. Exhibit 10 is our APD and plans on how we are
- 2 going to drill the well. And we have drilled a pilot
- 3 hole well. We drill a 4,000 -- are drilling a 4,000 foot
- 4 lateral across that section.
- 5 Q. And again, how many completion stages in this
- 6 well?
- 7 A. This is going to be the same as the Parkway.
- 8 Six stages, with four clusters per stage.
- 9 Q. Were Exhibits 7 through 10 prepared by you or
- 10 under your supervision or compiled of company business
- 11 records?
- 12 A. Yes, they were.
- 13 Q. In your opinion, is the granting of this
- 14 application in the interest of conservation and the
- 15 prevention of waste?
- 16 A. Yes.
- MR. BRUCE: Mr. Examiner, I move the
- 18 admission of Exhibits 7 through 10.
- 19 EXAMINER JONES: Exhibits 7 through 10
- 20 will be admitted.
- 21 (Exhibits 7 through 10 were admitted.)
- MR. BRUCE: I have no further questions of
- 23 the witness.

24

25

1 EXAMINATION

- 2 BY EXAMINER JONES:
- Q. Okay. So this structure map shows it's about
- 4 4,000 feet below sea level?
- 5 A. It's 4,600 feet below sea level. Elevations
- 6 out there are about 3,500 feet. So the depths are 8,100
- 7 feet, approximately.
- 8 Q. But you could drill some stand-up wells in the
- 9 west half of 18; is that correct?
- 10 A. Yes, we could, and we may likely. Yates is
- 11 currently drilling a well in Section 13.
- 12 Q. Stand-up?
- 13 A. No. It's a lay-down across the north half of
- 14 the north half.
- 15 Q. So you're going to watch and see what happens
- 16 there?
- 17 A. Right.
- Q. Do most people like to drill the pilot holes.
- 19 out here?
- 20 A. Yes, for the most part. Although the wells in
- 21 Section 20 are drilled by Mewbourne, and they do not have
- 22 pilot holes.
- 23 O. So it kind of indicates a little data there?
- A. I don't have it. There was no well logs
- 25 there. They did not penetrate the marker that I'm using

- 1 for my map.
- Q. Which is unfortunate.
- 3 A. Yes, it is.
- 4 Q. But I guess they think they can save some
- 5 money doing that?
- 6 A. Right. You know, you can probably save a
- 7 quarter million, quarter to a half a million dollars not
- 8 drilling a pilot hole.
- 9 Q. But if it saves you from drilling a well that
- 10 you shouldn't drill later --
- 11 A. Right. The fact that they made successful
- 12 wells down there gave us the encouragement to drill our
- 13 wells in 17 to the west. So we were a little nervous
- 14 about that.
- 15 Q. Do you expect more contributions from Section
- 16 18 and Section 17 -- I mean 17 and 16 in these wells?
- 17 A. I can't really tell. I don't really know.
- 18 Q. You're well coached by your attorney.
- 19 A. No, he didn't -- the porosities are similar.
- 20 The porosity is lower here in 17 and 16 than what it was
- 21 in 18. So we're a little nervous about them, but I think
- 22 all 40 acres will definitely contribute.
- Q. But you don't consider this a shale, do you?
- A. No, it's not a shale. It's a silty sand.
- Q. Silty sand? And people are drilling in shale,

- is what they call it. Or do you call them shales?
- 2 A. Right. Right. Yeah. We're drilling a number
- 3 of wells to the south, that Avalon or Leonard Shale
- 4 section.
- 5 Q. Okay. I know the Bakken had some sands around
- it that may have been holding a lot of that oil there?
- 7 A. Right. The Bakken had a silt stone right in
- 8 the middle of it that probably was a carrier bed for most
- 9 of the reservoir.
- 10 Q. Right.
- 11 A. And this may be similar. We've been drilling
- 12 our locations where the zone is thickest and has the best
- 13 porosity, but it may be productive in tighter sections.
- 14 This well is kind of testing that.
- Q. Not considering the limitations of fracturing,
- 16 you would prefer to stay in the conduit sand, wouldn't
- 17 you?
- 18 A. Right. We plan to stay in the green interval
- 19 there. So that is where the best porosity is and -- so
- 20 yeah.
- Q. If they can frack into something else, that's
- 22 great. But at least you've got something that you --
- A. Right. And it's been our experience that you
- 24 want to drill in the best reservoir rock you can find,
- and you're going to make a better well overall.

- 1 Q. Do you consider all four of these standard
- 2 40-acre tracts you want to bisect to contribute to the
- 3 well, do you predict they'll all contribute to this well?
- 4 A. I do.
- Q. Why aren't you drilling another 2,600 feet?
- 6 Why do you stop there?
- 7 A. Just convention, I guess. We don't have as
- 8 large an interest in that, so we're going to have a
- 9 bigger interest in the location that we're drilling 4,000
- 10 feet. It's probably a matter of economics, and we have
- 11 more control on it.
- 12 Q. So you would be spending more money and taking
- 13 the same risk, basically, geologic risk?
- 14 A. I think the sand is there in that part of it.
- Q. So there's geologic certainty, but there's not
- 16 commercial certainty?
- 17 A. Right.
- 18 Q. So you have commercial risk?
- 19 A. Right. That's partly why we're limiting it.
- 20 But we want to see if that lower quality pay is going to
- 21 be economic or not.
- 22 Q. But from your conversations with drilling
- 23 engineers, they can just keep going; is that correct?
- A. They could, yes. And we have drilled some of
- 25 the shale wells to the south that distance. So yes, it's

- 1 very feasible to do, and we could have done it, I guess.
- 2 We just never thought to do it.
- Q. I guess I'm way out of date. Ten to 12 years
- 4 ago, the risk, the drilling risk was pretty significant
- 5 for horizontal wells. You might lose your well by
- 6 keeping going, and you were drilling to intersect
- 7 fractures. But you're not worried about that, fractures,
- 8 here?
- 9 A. No. I don't think there's a significant
- 10 amount of fractures. I think most of these reservoirs is
- 11 contributing by the matrix of the formation.
- 12 Q. As opposed to if you had a shale, if you're
- drilling in shale, you'd still be trying to intersect
- 14 fractures; is that correct?
- 15 A. Yes, we would.
- 16 Q. Even though, however, fracturing is better
- 17 now, but you still go for those natural fractures in the
- 18 shale?
- 19 A. Yeah. The natural fractures are going to
- 20 increase your production rates and whatever if you can
- 21 intersect them or whatever.
- Q. I digress a little bit.
- A. That's why we frack them and put these huge
- 24 fracks on them, is to create fractures for it to flow
- 25 into.

- 1 Q. Does your people tell you that -- do you
- 2 contribute information to the reserves calculations on
- 3 these?
- A. Only in that they may use my isopach maps to
- 5 determine how much pay there is in different parts of the
- 6 section or something like that.
- 7 Q. Basically, this is it, then? This green
- 8 section is what?
- 9 A. That's pretty much what I think is the paying
- 10 interval for this sand. I'm not -- it's possible some of
- 11 those intervals or the sand above here may be
- 12 contributing as well. That's if they frack up into that.
- 13 Whether they do or not, I'm not an expert in that area.
- 14 Q. They're not telling you about that?
- 15 A. No. It hasn't been easy for our reservoir
- 16 engineers to come up with calculations to put all the
- 17 reserves in that zone that we're actually getting out of
- 18 them.
- 19 O. Sounds like the coalbed methane versus sand
- 20 conundrum?
- 21 A. We get more out of them than what we
- 22 anticipated or what we would calculate under normal
- 23 conditions. So there may be some unconventional nature
- 24 too. That's another reason that gave us the impetus to
- 25 go into this lower quality rock.

- 1 EXAMINER JONES: Thank you very much.
- 2 EXAMINATION
- 3 BY EXAMINER BROOKS:
- 4 Q. Okay. From what you said in response to Mr.
- 5 Jones' questions, I gather you do not consider the
- 6 reservoir to be inferior in the east half of 16 to what
- 7 it is in the west half?
- 8 A. Not really. If you look at that well on the
- 9 right side of the cross-section, the Hurl State Com 1,
- 10 it's in spot A. To me, that looks to be as good a
- 11 quality of rock there as the well we drilled in the 17
- 12 3H. So I see no reason why at this point it's not
- 13 prospective over there.
- Q. It looks like in Sections 7 and 8 they they've
- 15 drilled stand-ups?
- 16 A. Right. Those are our wells. We drilled
- 17 those.
- 18 Q. Is there any reason to prefer stand-ups or
- 19 lay-downs, one way or the other, in this area?
- 20 A. My boss prefers drilling east/west largely
- 21 because of the stress fields that are out there are going
- 22 to intersect more fracture trends or can produce it
- 23 better or frack it better by drilling east/west wells.
- 24 EXAMINER BROOKS: Very good. That's all I
- 25 have.