

ORIGINAL

Case No. 14812

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Chief Examiner-Engineer
DAVID K. BROOKS, Legal Examiner

April 12, 2012

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Chief Examiner-Engineer, and DAVID K. BROOKS, Legal
Examiner, on Thursday, April 12, 2012, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South St. Francis Drive, Porter Hall, Santa Fe, New
Mexico.

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25

1 (8:22 a.m.)

2 EXAMINER EZEANYIM: Now, that brings me to
3 one case on page 2. At this point, I call case Number
4 14812, and this is the application of COG Operating LLC
5 for a non-standard spacing and proration case unit and
6 compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: Mr. Examiner, Michael
9 Feldewert, with the Santa Fe office of the law firm of
10 Holland & Hart, appearing on behalf of COG Operating
11 LLC. I have two witnesses here today.

12 EXAMINER EZEANYIM: Thank you.

13 Any other appearances?

14 May the witnesses stand up and state your
15 names and be sworn. State your name.

16 MR. CLARK: Greg Clark.

17 MR. GAYNOR: Brandon Gaynor.

18 (Mr. Clark and Mr. Gaynor sworn.)

19 EXAMINER EZEANYIM: Mr. Feldewert.

20 MR. FELDEWERT: Thank you.

21 BRANDON K. GAYNOR,
22 after having been previously sworn under oath,
23 was questioned and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. FELDEWERT:

1 Q. Please state your name for the record and tell
2 the examiner by whom you're employed and in what
3 capacity.

4 A. My name is Brandon Gaynor. I am a landman for
5 Concho Resources in Midland, Texas.

6 Q. And have you previously testified before this
7 Division?

8 A. Yes, I have.

9 Q. And were your credentials as a petroleum
10 landman accepted and made a matter of public record?

11 A. Yes, they were.

12 Q. Are you familiar with the application that's
13 been filed by Concho in this case?

14 A. Yes.

15 Q. And are you familiar with the status of the
16 lands in the subject area?

17 A. Yes.

18 MR. FELDEWERT: Mr. Examiner, I would
19 tender Mr. Gaynor as an expert witness in petroleum land
20 matters.

21 EXAMINER EZEANYIM: Mr. Gaynor is so
22 qualified.

23 Q. (BY MR. FELDEWERT) Would you please turn to
24 what's been marked as COG Exhibit Number 1. Identify it
25 please, and explain what COG seeks under this

1 application.

2 A. Yes. This is a map showing the area
3 surrounding the well that we're intending to drill
4 pursuant to this application. The yellow area is our
5 acreage in Section 6, Township 19 South, Range 26 East,
6 and we are seeking to pool the east half of that yellow
7 area, which is the east half of the west half of Section
8 6, as to the Glorieta and Yeso formations.

9 EXAMINER EZEANYIM: You cannot pool that
10 east half/west half. It has to be formed before you can
11 pool it. Are you also asking for non-standard spacing?
12 You are asking for non-standard spacing, right?

13 THE WITNESS: Yes.

14 EXAMINER EZEANYIM: You understand that
15 before you pool it -- you can't pool a non-existent
16 spacing unit, correct?

17 THE WITNESS: It would be dedicated to the
18 new well.

19 EXAMINER EZEANYIM: I know. I know, but
20 the other 40 acre is the 160 acre, right?

21 THE WITNESS: Yes.

22 EXAMINER EZEANYIM: I'm just pulling your
23 leg, but I just want you to --

24 THE WITNESS: (Laughter.)

25 EXAMINER EZEANYIM: I just want you to

1 understand that. You say -- you just told me you wanted
2 to pool it, but that unit doesn't exist until we approve
3 that unit --

4 THE WITNESS: Right.

5 EXAMINER EZEANYIM: -- approve that you can
6 do it.

7 THE WITNESS: Yes.

8 EXAMINER EZEANYIM: I want you to
9 understand that.

10 THE WITNESS: Yes. Yes, I understand you.

11 Q. (BY MR. FELDEWERT) So, Mr. Gaynor, we want to
12 form a non-standard spacing and proration unit comprised
13 of the east half of the west half of Section 6; is that
14 correct?

15 A. That is correct.

16 Q. And you're seeking to pull the mineral
17 interests underlying that non-standard spacing unit in
18 the Glorieta-Yeso formation?

19 A. Yes.

20 Q. And you seek to dedicate that non-standard
21 spacing unit, then, to be an Arabian 6 Fee #2H?

22 A. That is correct.

23 Q. What pool is involved with this application?

24 A. You know, technically, this isn't within the
25 boundaries of the Penasco Draw-San Andres-Yeso Pools,

1 but it's the closest pool, so that's what we have
2 dedicated to do it on in our permit.

3 EXAMINER EZEANYIM: What pool?

4 THE WITNESS: The Penasco Draw-San
5 Andres-Yeso Associated Pool.

6 EXAMINER EZEANYIM: Okay.

7 Q. (BY MR. FELDEWERT) Now, is Section 6 all fee
8 land?

9 A. Yes, it is.

10 Q. And will the completed interval for this
11 proposed horizontal well, as defined in the new
12 Horizontal Well Rule, comply with all the setback
13 requirements for this well?

14 A. Yes, it will.

15 Q. Now, have you been able to identify the
16 interest owners in the proposed non-standard spacing
17 proration?

18 A. Yes, we have.

19 Q. I'll have you turn to what's been marked as
20 Exhibit Number 2. Does this identify your proposed
21 non-standard spacing units, on the first page, and then
22 the interest owners, on the second page?

23 A. Yes. It does.

24 Q. Why don't you explain to us what's depicted on
25 this Exhibit Number 2?

1 A. Sure. On the first page, this is representing
2 the east half of the west half of Section 6. There are
3 different ownership areas, different ownership tracts
4 within there, and I've identified them as Tracts 1, 2, 3
5 and 4. And on the second page, I've listed the
6 ownership of each one of those tracts.

7 Q. Now, have you also, then, on the second page of
8 Exhibit 2, identified the parties that you seek to pool?

9 A. Yes. At the bottom of the page, we have a
10 total interest in what would be the well in the
11 approximately 60 acres. And down at the bottom, the
12 highlighted interest owners, those are the people we are
13 seeking to pool.

14 Q. Now, were you able -- did you propose -- well,
15 let me ask you this: The parties that are highlighted
16 in yellow at the bottom of Exhibit 2 are the parties
17 that remain uncommitted at this point in time to this
18 proposed well, correct?

19 A. Yes, that's correct.

20 Q. And have you proposed the well to these
21 interest owners?

22 A. Yes. We have.

23 Q. And is that reflected in Exhibit Number 3?

24 A. Yes. Exhibit Number 3 is a copy of one of our
25 letters that we sent out.

1 Q. Okay. It's a copy of one of your letters.

2 Is this a representative sample of the
3 letter that was actually sent to all of the interest
4 owners that you seek to pool and --

5 A. Yes. They were all the same.

6 Q. And it included, did it not, an AFE costs
7 proposal to the letter, which is the second page of
8 Exhibit Number 3?

9 A. Yes.

10 Q. In addition to sending out this letter, what
11 additional efforts has Concho undertaken to obtain a
12 voluntary joinder for the remaining interest owners in
13 the proposed non-standard spacing unit?

14 A. We hired a land-brokerage group called Access
15 Resources to try to lease all of these people, and they
16 have been and continue to try to lease them. They've
17 had some difficulties with all of these people,
18 including estate problems and people that are just being
19 very difficult or refusing to acknowledge certain facts
20 about their legal standing.

21 Q. I want to now -- since we're on Exhibit Number
22 3, I want to turn to the AFE costs, which is the second
23 page of that exhibit. Are these costs reflected on the
24 AFE commensurate with costs that Concho has incurred for
25 drilling similar horizontal wells in this area?

1 A. Yes.

2 Q. And in addition to this AFE, has Concho
3 estimated the overhead and estimated the costs for
4 drilling the well, as well as producing it if you are
5 successful?

6 A. Yes, we have.

7 Q. And what are those costs?"

8 A. It's 5,500 a month while drilling, and 550 a
9 month while producing.

10 Q. Are these costs commensurate with what Concho
11 and other operators in this area charge for similar
12 wells?

13 A. Yes.

14 Q. And do you ask that these administrative and
15 overhead costs be incorporated into any order resulting
16 from this hearing?

17 A. Yes.

18 Q. And do you ask, then, as well, that they be
19 adjusted in accordance with the appropriate accounting
20 procedures?

21 A. Yes, we do.

22 Q. And with respect to the interest owners that
23 remain uncommitted to this well, do you request that the
24 Division propose a 200-percent risk penalty?

25 A. Yes.

1 Q. I want to now turn to the formation of the
2 non-standard unit. First off, has Concho brought a
3 geologist here today to testify for the non-standard
4 unit?

5 A. Yes, we have.

6 Q. In addition, did Concho identify the leased
7 mineral interests in the 40-acre tracts surrounding the
8 proposed non-standard spacing unit prior to filing its
9 application?

10 A. Yes, we did.

11 Q. And did you include these known leased mineral
12 interest owners in the notice of this hearing?

13 A. Yes.

14 Q. Then turn to what's been marked as Concho
15 Exhibit Number 4. Is this an affidavit with the
16 attached letters providing notice of this hearing not
17 only to the pool parties but also to the leased mineral
18 interest owners in the 40 acres surrounding the
19 non-standard spacing unit?

20 A. Yes, it is.

21 Q. Now, finally, there's one other point. I
22 notice in Exhibit Number 4 that there were actually two
23 letters. One that went out, Mr. Gaynor, March 15th of
24 2012 and a second letter providing notice of the hearing
25 that went out on March 22nd. What was the cause for

1 that submission of two different letters?

2 A. You're talking about the Legacy letters?

3 Q. Yes.

4 A. We had a wrong address for Legacy Royalty at
5 first, and, in fact, for a different Legacy Royalty than
6 the one we were trying to deal with. We've since sorted
7 things out with them, but we had to provide notice to
8 the correct party.

9 Q. So the second letter that went out on March
10 22nd was to the correct Legacy Royalty, LLC, correct?

11 A. Yes, that's correct.

12 Q. Were Exhibits 1 through 4 prepared by you or
13 compiled under your direction and supervision?

14 A. Yes.

15 MR. FELDEWERT: Mr. Examiner, I would move
16 the admission of evidence as COG Exhibits 1 through 4.

17 EXAMINER EZEANYIM: Exhibits 1 through 4
18 are admitted.

19 (COG Exhibit Numbers 1 through 4 were
20 offered and admitted into evidence.)

21 MR. FELDEWERT: And that concludes my
22 examination of this witness.

23 EXAMINER EZEANYIM: Thank you very much.

24 EXAMINATION

25 BY EXAMINER BROOKS:

1 Q. Let's see. This is a Yeso prospect, right?

2 A. Yes, it is.

3 Q. And you're asking for a pooling unit only in
4 that -- well, of course, since this is -- this is the
5 San Andres-Yeso Pool, right?

6 A. Uh-huh.

7 Q. So this would be in this pool, the Penasco
8 Draw-San Andres-Yeso Pool?

9 A. Yes, or at least in the offset area to the
10 pool.

11 Q. Yeah, but you're not asking for any unitization
12 or any pooling of any of the formation or pool?

13 A. No. No.

14 Q. Okay. The people that you've highlighted in
15 yellow on Exhibit 2, those are the ones that have not
16 joined?

17 A. Yes.

18 Q. And are these unleased mineral owners of
19 unleased mineral interests?

20 A. Yes, these are unleased mineral owners.

21 Q. You said something about some of them were --
22 had misapprehensions about their legal rights. Are
23 there -- is there -- are there controversies as to what
24 exactly they own?

25 A. Well, you know, it's -- it's a bunch of

1 different problems. As you can see, these people own
2 very small interests, and they're removed from the
3 people who originally purchased these interests by
4 several generations. Many of them didn't know that they
5 even owned this, and they live in different parts of the
6 country, in Oregon and Connecticut and all these
7 different places.

8 And the problem is, with the estates, you
9 know, they -- some -- we have one woman in particular
10 who thinks that she is able to sign on behalf of her
11 husband's estate, except that that's no longer the case.
12 But she has instructed her children not to sign
13 anything, and she refuses to sign anything until we
14 accept that as a fact. The problem is, it's just not --
15 it's not accurate.

16 Q. Right. Well, under these circumstances, it
17 might be reasonable to anticipate that that well will
18 have some difficulty, or you would encounter some
19 difficulty getting everybody to agree on the
20 distribution of proceeds. Is that fair to say?

21 A. That is another problem we'll have to deal with
22 at some point in time.

23 Q. So even though -- now, have you -- have you --
24 have all these people been -- their whereabouts have all
25 been ascertained?

1 A. Yes.

2 Q. It would seem to be a reasonable conclusion in
3 a case of this kind --

4 A. Well, I take that back. I think maybe we
5 haven't found Wanda Lawrence, but we've found everybody
6 else.

7 Q. I was just going to observe that -- well, the
8 kind of land difficulty -- or interest difficulties that
9 you were identifying, it would probably be prudent for
10 the Oil Conservation Division to require an escrow in
11 this case even though -- even if there were not
12 unlocated parties, although you say there is one
13 unlocated party.

14 A. Yes.

15 Q. Okay. Thank you. I just wanted to clarify.

16 EXAMINATION

17 BY EXAMINER EZEANYIM:

18 Q. Let's go back to the uncommitted interest owner
19 you were talking about.

20 A. Yes.

21 Q. And that was on Exhibits Number 2 --

22 A. Yes.

23 Q. -- and Number 3. Those are the -- you know, I
24 understand that those in yellow are owners of leased
25 mineral interests, right?

1 A. Yes.

2 Q. And you are trying to have them commit by
3 writing them, and you have that on Exhibit Number 3.

4 A. Yes.

5 Q. Could you explain -- that is the industry
6 standard now, that, you know --

7 A. Yes. This is the --

8 Q. And they don't want to sign this, right?
9 They don't want to -- is that -- I mean, it will be very
10 difficult if they refuse to participate in the --

11 A. Yes. You know, this offer went out to far more
12 people than just the interest owners that you see here.

13 Q. I know.

14 A. Most of them we've been able to work with and
15 take the lease and everything. These are the people
16 we've had difficulty with.

17 Q. And you are extending up to a one-quarter
18 mineral interest, right?

19 A. I'm sorry?

20 Q. You are extending up to a one-quarter mineral
21 interest?

22 A. Yes. They would be keeping a one-quarter
23 royalty, yes.

24 Q. And then the 1,000 acre, can you explain that
25 to me? What is that?

1 A. That's our -- you know, our bonus
2 consideration. It's an up-front payment when we take a
3 lease from somebody. You know, if you have a
4 ten-percent interest in a 160-acre tract, you know, you
5 have 16 net acres, basically. And so we would -- you
6 know, you'd get \$16,000, if you had that.

7 Q. Okay. And this is for a three -- three-year
8 term, I assume?

9 A. Yes.

10 Q. What is primary? What is secondary?

11 A. The primary term is the initial term of a
12 lease, where you don't really have to do anything to
13 hold your lease. You have up until three years before
14 you have to drill a well. And then after the primary
15 term expires, you have to have production to continue
16 holding the lease.

17 Q. Okay. So that lease is production? So if
18 there is no production, that's it?

19 A. The lease goes away.

20 Q. I think I understand.

21 Now, let's move to Exhibit Number 1 again,
22 where you want to formulate the -- are all the wells
23 depicted in this diagram here? Do you have all the
24 wells in this diagram?

25 A. All of the wells?

1 Q. All -- yeah, all of the wells that are
2 currently drilling oil or have been drilled.

3 A. I'm not sure. That's a question that maybe
4 Greg can answer, our geologist, better than I.

5 Q. Oh, okay. I'm sorry. I thought -- the wrong
6 person. Okay. I'll ask when the geologist comes in.

7 Okay. Now, Mr. Brooks asked you about the
8 pooling, and that's the San Andres-Yeso. And my
9 question is: So if you don't have any pooling interests
10 from the southwest to that bed -- to the bed of the
11 Yeso, what are you pooling? I don't understand what you
12 said about that. Tell me, are you pooling from the
13 southwest to the Yeso, or --

14 A. No, just the Glorieta -- just the Glorieta and
15 the Yeso.

16 Q. Glorieta and Yeso?

17 A. Yes.

18 Q. So anything that will -- you are not
19 interested?

20 A. Not at this time.

21 Q. Now, you say you didn't find the one person. I
22 think I can ask about the one person. You didn't find
23 one person out of all the mineral interests?

24 A. Yes.

25 Q. Did you have any newspaper advertisements to

1 take care of -- take care of that one person? If you
2 didn't find them, did you do that advertisement?
3 Because, you know, if you don't find somebody, the only
4 way to protect yourself is to put it in the paper
5 advertisement circulation so that, you know, maybe he
6 will see it, or he or she will see it, if you couldn't
7 find them.

8 MR. FELDEWERT: Mr. Examiner, Mr. Gaynor
9 can identify the individual. It's my understanding that
10 the address is good, that he has refused to accept the
11 certified notice.

12 EXAMINER EZEANYIM: What does that mean?
13 If he refuses to accept the certified notice, what --
14 what is in there?

15 EXAMINER BROOKS: Well, they don't let you
16 open it, so if you refuse to accept it, then I would
17 assume that he probably doesn't necessarily know what's
18 in there.

19 MR. FELDEWERT: In other words, he doesn't
20 want to know, I guess. I mean, I can't speak,
21 obviously, for his intent. But I know the address was
22 good, but it was returned because he refused to accept
23 service.

24 EXAMINER EZEANYIM: This is interesting.
25 The operator needs to do a publication in the Journal

1 newspaper for the circulation, because that way -- even
2 though you know -- you know, my commission is that if
3 you can't find him, then you do that. But now you found
4 him.

5 MR. FELDEWERT: We found him; we have a
6 good address. He just refused to accept service.

7 EXAMINER EZEANYIM: So no need to do that.

8 EXAMINER BROOKS: I do not think
9 publication is necessary under the circumstances.

10 EXAMINER EZEANYIM: Yeah.

11 MR. FELDEWERT: But you're correct. If we
12 have an interest owner that we do not have an address
13 for, then the standard policy is, we do submit an
14 advertisement in the newspaper.

15 EXAMINER EZEANYIM: Yeah. I can understand
16 why you didn't do that. I think you are correct. Okay.

17 So in this case, following up on that now,
18 are you supposed to establish escrow accounts? So that
19 is another question. You have to -- because when we
20 don't find anybody, we ask you to establish escrow
21 accounts. So in this case, do we do that?

22 EXAMINER BROOKS: As I was saying -- as I
23 was intimating when I was questioning the witness, I
24 would advise that you prepare for an escrow account in
25 this case, because it appears to be that there may well

1 be controversy as to the division of interest among
2 various pooled parties.

3 EXAMINER EZEANYIM: Okay. Yeah. So we
4 have to establish an escrow account.

5 Q. (BY EXAMINER EZEANYIM) This is going to be a
6 new well?

7 A. Yes.

8 Q. And have you applied for APD or API numbers?

9 A. I believe that we do have an APD. I don't know
10 if that's included in this packet.

11 Q. Okay. That's what I mean. Do you have the API
12 number?

13 A. I don't have it with me.

14 Q. But you do have it?

15 A. Yes.

16 Q. So if you can get it and give it to me.

17 A. Sure.

18 Q. Let me see if I have any other questions. Of
19 course, I can call you back to get all the information
20 if I need anything else. For now, you may be excused.

21 A. Thank you.

22 MR. FELDEWERT: Call the next witness?

23 EXAMINER EZEANYIM: Call your next witness.

24 MR. FELDEWERT: Thank you.

25

1 GREG CLARK,

2 after having been previously sworn under oath,

3 was questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

6 Q. Good morning.

7 A. Good morning.

8 Q. Would you state your name for the record, and
9 identify for the Examiner by whom you are employed and
10 in what capacity?

11 A. Yes. My name is Greg Clark. I'm a geologist
12 for Concho.

13 Q. Have you previously testified before this
14 Division?

15 A. I have.

16 Q. And were your credentials as a petroleum
17 geologist accepted and made a matter of public record?

18 A. They were.

19 Q. Are you familiar with the application that's
20 been filed by Concho in this case?

21 A. Yes.

22 Q. And have you conducted a geologic study of the
23 area?

24 A. I have.

25 MR. FELDEWERT: Mr. Examiner, I would

1 tender Mr. Clark as an expert witness in petroleum
2 geology.

3 EXAMINER EZEANYIM: He is so qualified.

4 Q. (BY MR. FELDEWERT) Would you please turn to,
5 then, what's been marked as Exhibit Number 5, and
6 beginning with the Legend, please identify what this
7 exhibit is for the Examiner, and walk us through it.

8 A. Sure. This map right here is a structural map
9 on top of the Paddock, which is on top of the Yeso.

10 Q. Top of the Paddock?

11 A. That's correct.

12 Q. Okay.

13 A. And what we're trying to show here is that you
14 have a slight dip that you go from the northeast to the
15 southwest, with no major faulting in the area that would
16 keep us separated from any of the fields we've defined.
17 And we've defined the producing fields that surround the
18 area in which we want to drill the Arabian 2H that we
19 feel --

20 EXAMINATION

21 BY EXAMINER EZEANYIM:

22 Q. What is the dip? Can you explain that dip?
23 What kind of dip -- not into --

24 A. North -- northeast to -- or northwest to
25 southeast, rather. So depositionally, you're going --

1 you're going from the shelf into the deep basin as you
2 go down to the south and to the east.

3 Q. Okay.

4 A. So we've identified the major producing fields
5 in the area that we feel are correlative to the Arabian
6 2H in the area in which we want to drill our lateral
7 well. As depicted -- it's in red -- are wells that have
8 been or -- and/or are producing in the Paddock, and the
9 blue represent Blinebry producers in the area.

10 Q. Are you talking about those small red dots?

11 A. That's correct.

12 Q. Those red dots are wells that are producing,
13 right?

14 A. That's correct.

15 Q. And they are all vertical wells?

16 A. That is correct, that we are displaying right
17 here. Actually, there are some -- if you look down in
18 the cemetery field --

19 Q. Yeah.

20 A. -- there are some horizontal wells that are
21 Paddock producers.

22 Q. Oh, yeah. Where is that?

23 A. Down to the -- down to the --

24 Q. What section?

25 A. -- the south and the west, right above the

1 Concho, like Section 9, for instance, below the
2 cemetery.

3 Q. Okay.

4 A. Those are -- those are horizontal wells that
5 are in the Paddock, which we feel are analogous, also,
6 to the area in which we're trying to --

7 Q. Could you point it out? It wasn't clear to me
8 here.

9 A. You want me to show you?

10 Q. Yeah. I want you to -- I want you to show me.

11 A. Sure.

12 Q. Because I can't see yours. Yeah. Which
13 well --

14 A. So you see some of these horizontals right
15 there (indicating)? You can barely seem them.

16 Q. Yeah. Do you have any vertical well right
17 here?

18 A. Yes.

19 Q. Have you drilled any vertical wells right here?
20 Not yet?

21 A. Not yet. Actually, we have already drilled
22 three as of today. We're on our third one that we're
23 drilling.

24 Q. Because those wells are currently --

25 A. Sure. And then we do feel that we are

1 correlative to that field where we're at. And I'll show
2 you that as we go forward.

3 Q. Okay.

4 MR. FELDEWERT: Mr. Examiner, while we're
5 waiting, I think -- it is difficult to see in this
6 exhibit, and I apologize. If you look, for example, at
7 19 South, 25 East, below the Dagger Draw box there --

8 EXAMINER EZEANYIM: Is this Number 5?

9 MR. FELDEWERT: Exhibit Number 5.

10 -- you'll see a number of Paddock
11 horizontal wells, for example, in Sections 24, 25, 36.

12 Q. (BY EXAMINER EZEANYIM) How do you know that
13 they are there? Is it the red dots?

14 MR. FELDEWERT: There will be a dot --

15 A. There's a real thin line. It's hard -- it is
16 hard to see.

17 Q. (BY EXAMINER EZEANYIM) Yeah. I mean, because
18 what I'm looking at are not vertical wells.

19 A. We have -- we have a display that shows the
20 horizontal wells in the area that are Paddock. I don't
21 believe we have one with us today, but we can send that
22 to you.

23 Q. Okay. Then on that -- yeah. I really want
24 that, you know, that depicts the wells on that Section
25 24. Is that horizontal well extending north-south?

1 A. Yes.

2 Q. I can't see it very well.

3 Okay. Go ahead. I'm sorry.

4 A. No, no, no. That's quite all right.

5 So our well is showing to be oriented south
6 to north. We want to drill a surface location south and
7 then the bottom hole location to north, in this area
8 (indicating).

9 Q. And there are two right there. Answer that
10 crucial question. That's why I'm trying to pose,
11 because as you know, what we're trying to do here
12 is that once we establish south-north/north-south,
13 especially that section, I'm meant to believe that
14 that's where you'll go to explore that section. Are you
15 not -- you mentioned north-south on that one. Tell me
16 why you want to do that. I know you are -- you're
17 traveling [sic] northwest to southeast. That, I can
18 see, but tell me why you want to do this.

19 A. Sure. And I have answered this question
20 previously; not to you, though, of course.

21 So we feel like Sh-max, which is the
22 maximum horizontal stress direction, is running in a
23 northwest to southeast direction. So we feel that as
24 long as we drill oblique to that direction, then whether
25 we drill east-west or north-south is not going to have

1 any bearing -- one is not going to have better results
2 in terms of completing this well. And again, I'm not a
3 completion engineer, but in terms of geology, if you
4 drill -- if you're oblique to your maximum stress
5 direction, there should not be any difference in the
6 contribution to that well whether you drill east-west or
7 north-south.

8 Now, if you were to drill north in the
9 direction of the maximum stress direction, then there
10 would probably be less production in that well, and
11 that's -- that's what we want to stay away from.

12 Q. That's why you want to do north-south?

13 A. Or east-west, correct, because they're both
14 oblique to the -- to the -- to the northwest-southwest
15 direction.

16 So the main purpose of showing this
17 structure map from a structural perspective is to show
18 that where we're at in the Arabian 2H, we -- we are on
19 strike structurally with these other producing fields in
20 the area, with no major faulting, no major folding, no
21 major geologic impediments that separate us from those
22 other producing fields. So this map was made in order
23 to give us a structural relationship of where we are in
24 relationship to the other producing Yeso fields in the
25 area.

1 Q. Yeah. I can see. The contours allow you to do
2 that. So I believe, then, in Section 6, if you have to
3 drill a well, it has to be north-south, south to north,
4 or whatever.

5 A. To be honest, in order -- the way that I look
6 at it, in order for us to fully develop this section
7 where we have acreage, it would have to be north-south,
8 from an acreage standpoint, because we don't have
9 acreage in the east half of the section. So we would
10 only be doing not even half laterals if we were to be
11 going east-west. So we definitely take that in mind,
12 you know. And then we feel that it is the nature of the
13 body here that we want to fully develop these sections
14 without -- without leaving much behind.

15 Q. Okay. I think we settled that, why you are
16 looking at that.

17 A. Okay.

18 CONTINUED DIRECT EXAMINATION

19 BY MR. FELDEWERT:

20 Q. Mr. Clark, anything else on this exhibit?

21 A. I believe that covers it.

22 Q. All right. Then let's turn to what's been
23 marked as COG Exhibit Number 6. And would you please
24 identify this exhibit for the Examiner and explain what
25 it shows?

1 A. Sure. It's the same area and map that we
2 showed on the previous exhibit, except taking the
3 structure off.

4 So this map might help you in seeing where
5 the horizontal lines are, because you don't have the
6 contours there getting in your way. So it might be a
7 little more clear on this one. Because, again, we are
8 showing where there are Paddock and Blinbry producers.
9 The only thing we've taken off is the structure, and
10 then we've added a line of section, which is going to be
11 a cross-section in the next exhibit that I'm going to
12 explain.

13 EXAMINER EZEANYIM: Can I make a quick -- I
14 really to want locate the well on the structure. I see
15 the structure there. I just want to pick those
16 horizontal wells, so I can see clearly, because I can't
17 see very clearly.

18 THE WITNESS: We'll make sure next time
19 that they stand out a lot, or we can even -- we can
20 update this and send it to you.

21 EXAMINER EZEANYIM: That's what I'm saying.

22 THE WITNESS: You have it; you got it.
23 We'll do that as soon as I get back tomorrow.

24 EXAMINER EZEANYIM: Thank you very much.

25 THE WITNESS: You're welcome.

1 EXAMINER EZEANYIM: I need to evaluate
2 those.

3 THE WITNESS: I completely understand.

4 A. So, again, the main purpose of this map is to
5 show the cross-section in which I'm going to be talking
6 to next and its areal extent in relationship to the
7 Arabian 2H and its correlativeness stratigraphically to
8 the offset fields in which there is Yeso production.

9 Q. (BY MR. FELDEWERT) Now, Mr. Clark, the wells
10 that you've depicted on here in your -- from A to A
11 prime, do you consider those wells to be representative
12 of the area that is the subject of your proposed
13 non-standard unit?

14 A. Yes, I do.

15 Q. Is there anything else on this particular
16 exhibit?

17 A. No. I believe that's all.

18 Q. Okay. Let's keep our finger on this one and
19 turn to the next one.

20 A. Sure.

21 Q. Explain, first off, what's been marked as
22 Concho Exhibit Number 7 --

23 A. Sure.

24 Q. -- and how it relates to what's been marked as
25 Concho Exhibit Number 6.

1 A. This cross-section is depicted from A to A
2 prime, which is relative south to relative north. And
3 if you look at the cross-section on the left side of the
4 cross-section, it's A, so that would be south to the
5 cemetery area, and then as you go right, and/or north,
6 in the cross-section, that would be A prime, which is up
7 to the Dayton Field. And, you know, the red dots on the
8 previous map represent where the wells are
9 geographically in relationship to this cross-section.

10 Q. Now, what do the various colors mean here on
11 Exhibit Number 7?

12 A. Sure. Now, this cross-section is a
13 stratographic cross-section. So it's been flattened on
14 top of the Paddock in order to take the structural
15 influence out, so we can show the correlative -- the
16 stratographic correlativeness between the fields in
17 relationship to our well.

18 The yellow is the top of the Glorieta. The
19 red line is the top of the Paddock, and the blue line is
20 the top of the Blinebry. As you go from south to north,
21 you'll see in the green interval, which is the overall
22 Paddock interval, that it's pretty continuous. There's
23 not a lot of thickening and thinning. And if you look
24 close at the logs, you don't see a lot of change in
25 terms of rock properties, porosity development, of

1 dolomite development, so on and so forth. We feel it's
2 pretty consistent throughout the area in which we're
3 showing this cross-section.

4 Now, the red vertical lines on three wells
5 that are there represent where these vertical wells have
6 been completed and -- perforated and completed in the
7 Paddock. Now, you'll also see where there are three
8 wells that have no perforations currently in the
9 Paddock. Now, those are deeper Morrow gas wells and
10 have not been recompleted back to the Paddock as of
11 today.

12 EXAMINER EZEANYIM: So you are going to do
13 that. So there is no completion on these three wells?
14 Those three wells, say, are prospecting down, right?

15 THE WITNESS: They are producing. They're
16 current producers in the Morrow.

17 EXAMINER EZEANYIM: Are those your wells?

18 THE WITNESS: They are not our -- not
19 all -- no, they are not our wells.

20 EXAMINER EZEANYIM: The operator is not
21 going to do that there?

22 THE WITNESS: No. But if it was me, I
23 would -- I would be completing it to the Paddock.

24 MR. FELDEWERT: Now, don't give out any
25 free advice (laughter).

1 THE WITNESS: Okay.

2 Q. (BY MR. FELDEWERT) What is the -- have you
3 depicted, as well, on Exhibit Number 7 the target
4 interval to the horizontal well?

5 A. Yes, I have. If you look closely where the
6 bracket is on the second well from the left, you'll see
7 the bracket is the lateral interval. That is the upper
8 Paddock as I have defined it geologically, and it
9 represents the best porosity interval in which to land
10 these wells, and it is consistent throughout the area.
11 So we feel that is the best place to be landing these
12 wells going forward.

13 Q. Mr. Clark, what conclusions have you drawn from
14 your geologic study of this area?

15 A. I've concluded there are no major geologic
16 impediments structurally to keep us from drilling these
17 wells on a full section horizontally -- horizontal. I
18 also feel that we can effectively and efficiently drill
19 these wells using full-section laterals, and I also
20 believe that all areas of the full-section laterals will
21 contribute to production equally going forward.

22 Q. In your opinion, would the granting of COG's
23 application be in the best interest of conservation and
24 the prevention of waste and for the protection of
25 correlative rights?

1 A. I do.

2 Q. Were COG Exhibits 5 through 7 prepared by you
3 or compiled under your direction and supervision?

4 A. That is correct.

5 MR. FELDEWERT: Mr. Examiner, I will move
6 the admission of COG Exhibits 5 through 7.

7 EXAMINER EZEANYIM: Exhibits 5 through 7
8 will be admitted.

9 (COG Exhibit Numbers 5 through 7 were
10 offered and admitted into evidence.)

11 MR. FELDEWERT: That concludes my
12 presentation.

13 THE WITNESS: Could I refer back to the one
14 question that the Examiner had earlier with Brandon in
15 reference to if these are all the current wells in the
16 area?

17 EXAMINER EZEANYIM: Yeah, of course. I
18 should have asked you.

19 THE WITNESS: That's okay. I don't mind
20 explaining it, if I understand the question.

21 EXAMINER EZEANYIM: Yeah. What I was
22 asking is, I wanted to get ahold of -- okay. We can use
23 this (indicating). This is Number 6 [sic]. And then I
24 want to see where you are -- where the horizontal well
25 is going to be. I wanted to see -- first of all, I want

1 to see -- is there any well that is traversed [sic] by
2 horizontal well? There is no well there that I can see
3 in that lateral.

4 THE WITNESS: Okay. Let's go to Exhibit 7.

5 EXAMINER EZEANYIM: That's where I am.

6 THE WITNESS: Okay. If you look in Section
7 32, we have drilled an east-west lateral.

8 EXAMINER EZEANYIM: Let me see.

9 THE WITNESS: In Section 32, of 18 South,
10 26 East, right to the middle --

11 EXAMINER EZEANYIM: Oh, 18 South? Okay.
12 18 South, 26 East?

13 THE WITNESS: Yes.

14 EXAMINER EZEANYIM: And you said -- what
15 section was that?

16 THE WITNESS: 32, almost in the center of
17 the section.

18 EXAMINER EZEANYIM: Yes.

19 THE WITNESS: There is a lateral that we
20 have recently drilled, COG.

21 EXAMINER EZEANYIM: That lateral is
22 indicated by a dot.

23 THE WITNESS: Well, I can see a line. Now,
24 whether or not you can see it, I can't attest to. But
25 like I said, I'll send you -- I'll send you this display

1 with the structure, with these horizontals bolder, so
2 you can see them.

3 EXAMINER EZEANYIM: Please. I would like
4 to see that.

5 THE WITNESS: And there is also one south
6 of 32, in Section 5, that we have recently drilled.

7 EXAMINER EZEANYIM: And those are
8 east-west? I think if you do that, I think it might be
9 east-west --

10 THE WITNESS: That's correct.

11 EXAMINER EZEANYIM: Please depict them, so
12 I may see.

13 THE WITNESS: You got it.

14 EXAMINER EZEANYIM: Okay. So, now, as far
15 as the map, east half of the west half, there is no well
16 there, right? Is there any well there?

17 THE WITNESS: Only vertical wells.

18 EXAMINER EZEANYIM: Yeah. That's what I'm
19 saying. There is not any horizontal well in that east
20 half/west half of Section 6?

21 THE WITNESS: No, sir.

22 EXAMINER EZEANYIM: You have no wells
23 there?

24 THE WITNESS: No, sir.

25 EXAMINER EZEANYIM: I just wanted to --

1 THE WITNESS: Sure.

2 EXAMINER EZEANYIM: If you have a
3 horizontal well, I wanted to see if you had a vertical
4 well already producing from there.

5 THE WITNESS: Sure. And I tracked that
6 very extensively, because there are other reasons
7 involved. You know, we want to make sure we know where
8 that wellbore is at so when we're going horizontal, we
9 don't run into it or anything of that nature.

10 EXAMINER EZEANYIM: Yeah. I'm listening.
11 Okay. Good. Okay. That's very good. I think I'm
12 clear why you want to do -- why you want to do
13 east-west -- I mean north-south, south-north. Okay.
14 Yeah.

15 And in Section 6, there is currently no
16 horizontal well, right?

17 THE WITNESS: No.

18 EXAMINER EZEANYIM: No. It's only -- okay.
19 I really would appreciate your diagram with all the
20 horizontal wells in this Exhibit Number 6.

21 THE WITNESS: Is that the one you wanted,
22 though?

23 EXAMINER EZEANYIM: Yeah. Well --

24 THE WITNESS: We can do it on both. How
25 about if I send it both on the structure and --

1 EXAMINER EZEANYIM: Yeah, on both. I need
2 to see those contour lines.

3 THE WITNESS: You got it. First thing in
4 the morning, I'll get right on that and try to have it
5 to you by tomorrow.

6 EXAMINER EZEANYIM: Thank you very much.

7 THE WITNESS: You're welcome.

8 EXAMINER EZEANYIM: Before you go, before I
9 forget this, I don't know which one is which, COG or
10 Concho. What is the relationship?

11 THE WITNESS: They're the same.

12 EXAMINER EZEANYIM: So even though the name
13 is --

14 THE WITNESS: On the stockmarket, it's COG,
15 but --

16 EXAMINER EZEANYIM: Okay. Concho --

17 THE WITNESS: -- Concho in the industry.

18 EXAMINER EZEANYIM: You know, what I used
19 to think is Concho Oil & Gas. And COG, it appears to
20 me -- I don't know.

21 THE WITNESS: It's the same thing. It
22 was -- for instance, when I worked for Burlington
23 Resources in Farmington, you know, it was Meridian Oil,
24 but they were known as Burlington Resources on the
25 stockmarket at the time, but it was the same company.

1 EXAMINER EZEANYIM: So I can use COG --

2 THE WITNESS: They're interchangeable.

3 EXAMINER EZEANYIM: I use them
4 interchangeably.

5 THE WITNESS: And you are correct by doing
6 that, sir.

7 MR. FELDEWERT: Mr. Examiner, I think the
8 application is actually filed as COG Operating LLC. So
9 that would be -- in terms of naming the operator under
10 the order, it would need to be COG Operating LLC. But
11 for purposes of references, you can call it Concho or
12 COG.

13 EXAMINER EZEANYIM: Yeah. Mr. Feldewert,
14 when I was going through your application -- let me tell
15 you why I ask this. As I was going through your
16 application -- I want to make sure I have the correct
17 name because -- I know you told me that COG is the same
18 as Concho. But see what happens, in the completion of
19 the application, it says: Is Concho the operator of
20 this unit? But since the application is filed by COG --
21 that's why I'm trying to clarify. Do I say Concho is
22 the designated operator, or COG is the designated
23 operator? In some of the application, it says COG and
24 some Concho. What does that mean?

25 MR. FELDEWERT: I see.

1 THE WITNESS: Now I understand your
2 question. I'm not sure I can answer.

3 MR. FELDEWERT: We tried to shorten COG
4 Operating LLC to just Concho in the terminology of the
5 application, but it is on behalf of COG Operating LLC.
6 So the operator, under the order, should be COG
7 Operating LLC.

8 EXAMINER EZEANYIM: Does COG have an
9 OGRID -- more than one OGRID, or is there just one
10 OGRID?

11 MR. FELDEWERT: I believe there is just one
12 OGRID. I'm not certain, but I know there is one OGRID
13 for COG Operating LLC.

14 EXAMINER EZEANYIM: So it doesn't matter if
15 I say COG, because the application says COG?

16 THE WITNESS: It will not bother me one
17 bit.

18 EXAMINER EZEANYIM: Excellent.

19 Now, I don't know if you guys know anything
20 about that, but you could tell them to give me that well
21 diagram that I was talking about.

22 THE WITNESS: Yes. It's on our list.

23 EXAMINER EZEANYIM: I mean, is it a single
24 lot or -- because here it says, if you have two lots or
25 three lots, you have to have those completed

1 intervals --

2 THE WITNESS: Sure.

3 EXAMINER EZEANYIM: -- in compliance with
4 the new Horizontal Well Rule.

5 THE WITNESS: And if you want, I'll explain
6 a little bit about the nature of the horizontal in this
7 section. The way that we have it is, we have the
8 surface location as 150 feet from the section line, and
9 that gives us enough room to build the pad for the rig.
10 Well, by the time we land our horizontal, we're 5- to
11 600 feet out from the section line. And that is
12 typically where either the last pack or the last perf
13 [sic] would be. So, you know, we're far enough away
14 from the section line, but we'll show you -- we'll get
15 you a diagram depicting that, because it's easier to
16 see.

17 EXAMINER EZEANYIM: Yeah. But, you know,
18 is this going to be an openhole [sic] completion, or are
19 you going to case it?

20 THE WITNESS: No. No. It's going to be
21 openhole packer.

22 EXAMINER EZEANYIM: Okay. See, that's why
23 I want that construction, to see whether you have the
24 completed interval, and that will tell me -- explain
25 the --

1 THE WITNESS: Sure. Sure. And so, you
2 know, where we put the last packer would be the last
3 part of the completed interval. And the way we have
4 these configured is, we have to put that last packer
5 right at where the curb starts, and that's usually about
6 500 feet from the section line.

7 EXAMINER EZEANYIM: Excellent.

8 THE WITNESS: We'll give you a diagram to
9 show that. I just wanted to explain it a little bit.

10 EXAMINER EZEANYIM: So I'm looking right
11 down here, and I see two of these geology maps for the
12 construction. So just get me that. That'll be fine.

13 THE WITNESS: We'll have it tomorrow. I'd
14 say today, but I don't get back until about 5:00 or
15 6:00.

16 EXAMINER EZEANYIM: I know. I mean, I'm
17 not writing the order right now, unless you are in a
18 hurry.

19 Well, you're doing a very good job. You've
20 answered all my questions. You may be excused.

21 THE WITNESS: Thank you.

22 EXAMINER EZEANYIM: Anything further?

23 MR. FELDEWERT: Mr. Examiner, thank you for
24 your time.

25 EXAMINER EZEANYIM: At this point, Case

1 Number 14812 will be taken under advisement, and that
2 concludes our hearing today.

3 (The proceedings concluded, 9:06 a.m.)

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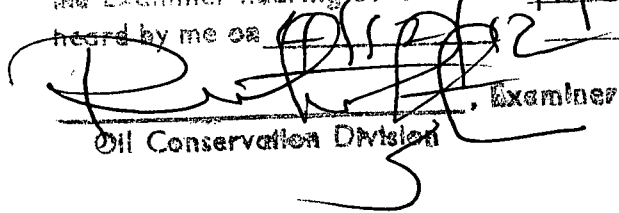
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14812
heard by me on 11/12/12


Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

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