

**MINUTES OF THE MEETING
OF THE OIL CONSERVATION COMMISSION
HELD ON SEPTEMBER 22, 2011**

The Oil Conservation Commission met at 9 o'clock a.m. on September 22, 2011, in Porter Hall, Wendell Chino Building, 1220 S. St. Francis Drive, Santa Fe, New Mexico.

PRESENT: **SCOTT DAWSON, Member**
 ROBERT BALCH, Member
 JAMI BAILEY, Chair

Mark Smith served as the Commission counsel.

The meeting was called to order by Chairman Bailey. The minutes of the August 25, 2011 Commission meeting were approved and adopted.

De Novo Case 14558, the application of Marbob Energy Corporation for vertical expansion of the Burch-Keely Unit, Eddy County, New Mexico, and De Novo Case 14577, the application of COG Operating LLC for vertical expansion of the Grayburg Jackson-Seven Rivers-Queen-Grayburg-San Andres Pool to correspond with the Unitized Formation of the Burch-Keely Unit, Eddy County, New Mexico, were called for final action. Order Nos. R-7900-D, R-7900-E, R-10067-C and R-10067-D were adopted and signed by the Commission.

De Novo Case 14497, the application of David H. Arrington Oil & Gas Inc. for compulsory pooling, Lea County, New Mexico and De Novo Case 14538, the application of Marshall & Winston, Inc. to contract an operator's authority and terminate a spacing unit and approve a change of operator, Lea County, New Mexico, both to be heard De Novo upon the application of David H. Arrington Oil & Gas Inc., were called and continued to the Commission meeting scheduled for December 8, 2011.

Case 14720, the application of Agave Energy Company for authority to inject, Lea County, New Mexico, was called and continued to the Commission meeting scheduled for December 8, 2011.

Reopened Case 14161, the application of Targa Midstream Service LP to amend Order No. R-13052 was called. Appearances were made by William Scott for Targa Midstream Service LP (Targa), and James Bruce for Monument Operating Company Inc. (Monument) and in association with Andrew Taylor for Apache Corporation (Apache). Mr. Scott made an opening statement explaining why Targa is seeking certain amendments to Oil Conservation Division Order No. R-13052. Mr. Bruce made an opening statement explaining the issues his clients have with the application.

Mr. Scott's first witness was James Lingnau, Regional Engineering Manager with Targa in Monument, New Mexico. He described the efforts made by Targa to re-enter and replug Well No. 285. He stated that the re-entry work was done by Apache through an agreement with Targa. He discussed options that were considered to perform a successful re-entry. Mr. Bruce and Chairman Bailey cross-examined the witness, and he was excused.

The next witness was Michael Pierce, a consulting geologist in Hobbs, New Mexico, appearing for Targa. He discussed problems encountered with researching when and where the plugs in the Well No. 285 were set. He talked of the plug that was set after the

efforts to re-enter the well and expressed his opinion that the well cannot be successfully re-entered and replugged. He discussed the possibility of migration from injected fluids in the Monument AGI well into the No. 285 well. He described his interpretation of logs of the Monument well as showing that the orientation of the fractures is northeast to southwest. He explained his calculation of the radius of injection of the plume from the Monument well. He presented casing and cementing data on six additional wells in his area of study. Mr. Bruce, Commissioner Dawson, and Chairman Bailey cross-examined the witness, and he was excused.

Mr. Bruce's first witness was Robert Steven Johnson, Geologist in the Monument and Eunice area with Apache in Midland, Texas. He explained Apache's objections to granting this application, including the use of dipmeter data. He agreed that the natural fractures go from northeast to southwest, but described a perpendicular trend that goes northwest-southeast which leads him to believe that at some point in time there will be leakage in other directions than northeast-southwest. He discussed productive zones in the area of the two subject wells. Mr. Scott and Chairman Bailey cross-examined the witness, and he was excused.

The next witness was John Edward Nelson, Reservoir Engineer in the Monument and Eunice area with Apache in Midland. He discussed cumulative production in the Abo formation. He presented injection information and explained his calculation of the radius of exposure of the injectate. He stated that if fluid migrates to the No. 285 well, it could jeopardize further Abo production. Mr. Scott, Commissioner Balch, and Chairman Bailey cross-examined the witness, and he was excused.

The next witness was Bobby Lee Smith, Permian Region Drilling Manager with Apache in Midland. He discussed the efforts to plug the No. 285 well and explained that all of the basic decisions on the plugging of the well were made by Targa. An objection was made to the admission of Exhibit 4, the proposed replugging of the well, because the witness did not have an adequate foundation to support the exhibit. The exhibit was not admitted. Chairman Bailey cross-examined the witness, and he was excused.

The next witness was Michael Parsons, President and one of the owners of Momentum Operating Company in Albany, Texas. He stated that Momentum is opposing the application because of its experience with acid gas injection wells where the acid gas migrated into wellbores of producing wells within one mile. He said that Momentum was concerned about the inability to plug the No. 285 well. Commissioner Balch cross-examined the witness, and he was excused.

The next witness was Michael James Donovan with James E. Smith and Associates in Tyler, Texas, a consultant retained by Momentum for this hearing. He stated that the plume from an injection well depends on how much fluid is put into the well and explained his calculation of the orientation of the plume from the proposed injection well. He listed problems he had with Targa's modeling of the plume. He stated his belief that the plume is much larger than calculated by Targa and could reach the No. 285 well, and it could damage future production from the Abo formation. The witness was excused.

Mr. Bruce submitted Exhibit 4-A, a plugging proposal for the No. 285 well approved by the Division. He asked the Commission to take administrative notice of the well file and admit Apache's Exhibit 4. The exhibit was admitted.

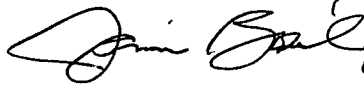
Mr. Scott called Mr. Pierce as a rebuttal witness to discuss the standard industry practice of using the Limestone Matrix in the logging of wells in the Permian Basin. He

presented his analysis of current and old logs of wells in the area. Mr. Bruce and Commissioner Balch cross-examined the witness, and he was excused.

Mr. Bruce and Mr. Scott made closing statements. Chairman Bailey asked both parties to provide Commission counsel with proposed findings and conclusions of law and a proposed order in two weeks. After a motion by Commissioner Dawson and a second to the motion by Commissioner Balch, the Commission voted unanimously to close the meeting pursuant to NMSA 1978, Section 10-15-1 H, to discuss the case. The meeting went back into open session, and Chairman Bailey announced that Reopened Case 14161 was the only matter discussed during the closed session. She requested findings and conclusions from both parties by the close of business on October 5, 2011. The chair announced that the Commission unanimously found in favor of Targa on all points and directed the Commission counsel to draft an order reflecting that decision.

The meeting was adjourned at 3:30 p.m.

**STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION**

A handwritten signature in black ink, appearing to read "Jami Bailey", written in a cursive style.

JAMI BAILEY, Chair