

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 EOG RESOURCES, INC., FOR  
A NONSTANDARD SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO

Case 14881

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Presiding Examiner  
WILLIAM V. JONES, Technical Examiner

August 9, 2012

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, DAVID K. BROOKS,  
Presiding Examiner, and WILLIAM V. JONES, Technical  
Examiner, on Thursday, August 9, 2012, 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  
Albuquerque, NM 87103 505-843-9241

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, LLP  
ADAM G. RANKIN, ESQ.  
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Santa Fe, New Mexico 87501  
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1 EXAMINER BROOKS: Okay. We will begin  
2 this morning with Case Number 14881, the application of  
3 EOG Resources, Inc., for a nonstandard spacing and  
4 proration unit and compulsory pooling, Eddy County, New  
5 Mexico.

6 Call for appearances.

7 MR. RANKIN: Good morning, Mr. Examiners.  
8 Adam Rankin, with Holland & Hart, on behalf of EOG  
9 Resources. I've got two witnesses today.

10 EXAMINER BROOKS: Okay. Will the  
11 witnesses please stand, identify themselves and be sworn?

12 MR. McCRIGHT: My name is Dan McCright.

13 MR. MORRIS: Bill Morris.

14 (Two witnesses were sworn.)

15 MR. RANKIN: Mr. Examiner, I'd like to  
16 call my first witness, Mr. Dan McCright.

17 DAN McCRIGHT

18 Having been first duly sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MR. RANKIN:

21 Q. Mr. McCright, can you state your full name for  
22 the record?

23 A. My name is Dan McCright.

24 EXAMINER BROOKS: Dan?

25 THE WITNESS: Yes, sir.

1 Q. Mr. McCright, can you please state who employs  
2 you and in what capacity?

3 A. I'm employed as a landman by EOG Resources,  
4 Inc., in Midland, Texas.

5 Q. Where do you reside?

6 A. Midland, Texas.

7 Q. Have you previously testified before the  
8 Division?

9 A. No.

10 Q. Can you please review for the Examiners  
11 briefly your educational background and your work  
12 experience as a petroleum landman?

13 A. I've got a BBA degree from Texas Tech  
14 University and have approximately 35 years being employed  
15 as a petroleum landman.

16 Q. Thank you, Mr. McCright.

17 Are you familiar with the application that was  
18 filed in this case?

19 A. Yes.

20 Q. Are you familiar with the status of the land  
21 in the subject area?

22 A. Yes.

23 MR. RANKIN: Mr. Examiners, I tender  
24 Mr. McCright as an expert in petroleum land matters.

25 EXAMINER BROOKS: So qualified.

1 MR. RANKIN: Thank you.

2 Q. (By Mr. Rankin) Mr. McCright, in your exhibit  
3 packet, can you please turn to what's marked as EOG  
4 Exhibit Number 1 and please review for the Examiners what  
5 this overview map shows?

6 A. This overview map shows the approximate  
7 location of the south half/south half of Section 1,  
8 Township 18 South, Range 29 East, in Eddy County, New  
9 Mexico, which is the spacing unit for EOG Resources,  
10 Inc., Sand Tank 1 Fed Com Number 3H well.

11 Q. This red mass in the middle of the map, that's  
12 the potash area; is that correct?

13 A. That's correct.

14 Q. Turning to Exhibit Number 2, this is a tract  
15 breakdown of the spacing unit; is that correct?

16 A. Yes.

17 Q. What does it show?

18 A. It shows that there are three leases that  
19 we're proposing to communitize, one federal and two state  
20 leases.

21 Q. And the following pages, is that a breakdown  
22 of the ownership interests by tract?

23 A. It is, both the overriding royalty owners and  
24 the working interest owners.

25 Q. What is it that EOG seeks by this application?

1           A.     We have three goals.  Firstly, to create a  
2     nonstandard 160-acre spacing and proration unit in the  
3     south half/south half of Section 1, Township 18 South,  
4     Range 29 East, NMPN, Eddy County, New Mexico.

5                     Secondly, to pool all of the record title  
6     owners who have not ratified the communitization  
7     agreement in the Bone Spring formation underlying this  
8     nonstandard spacing unit.

9                     Thirdly, to designate EOG Resources, Inc., as  
10    the operator of this nonstandard spacing unit and the  
11    horizontal well located thereon.

12           Q.     And Mr. McCright, just for the record, there's  
13    also a pool that's subject to this area; is that correct?

14           A.     Yes, that is correct, the Sand Tank Bone  
15    Spring Pool.

16           Q.     This well has already been drilled; is that  
17    correct?

18           A.     That's correct.  It was spudded on October  
19    10th, 2010.

20           Q.     And it is also already under production; is  
21    that correct?

22           A.     That's correct.  The first oil was produced  
23    December 22nd of 2010.

24           Q.     Can you please briefly just summarize for the  
25    Examiners the circumstances that have led to us being

1 here today? Explain the history of the well and the  
2 discussions that you've had with the State Land Office.

3 A. Yes. EOG sent out well proposals and received  
4 commitments from all the working interest owners in the  
5 project area for this well. The well was drilled, and a  
6 communitization agreement was circulated with the State  
7 Land Office and the BLM. The BLM has approved the  
8 communitization agreement.

9 Mr. Scott Dawson, with the State Land Office,  
10 raised a concern about whether EOG had secured the  
11 ratification of the record title holder in Tract Number  
12 1, which is State Lease B-5084.

13 Q. So based on those conversations with  
14 Mr. Dawson, he requested or required you to seek to pool  
15 the record title for Tract Number 1; is that correct?

16 A. Yes, it is.

17 Q. Now, who is the record title holder in the  
18 State Land Office records for Tract Number 1?

19 A. The record title holder is V.S. Welch, who is  
20 deceased.

21 Q. Looking at Exhibit Number 3, is this the  
22 approval of the BLM for the communitization agreement?

23 A. Yes, it is.

24 Q. And the following pages, is this the copy of  
25 the communitization agreement that was filed with the

1 State Land Office and the BLM?

2 A. Yes.

3 Q. On the following pages behind the agreement,  
4 are these the signature pages of all those working  
5 interest owners and other parties, overrides, who  
6 ratified the agreement?

7 A. Yes, it is.

8 Q. So as you mentioned, you've got all the  
9 working interest owners, 100 percent, ratified and  
10 approved the communitization agreement; is that correct?

11 A. That's correct.

12 Q. So the only interest that you have not fully  
13 ratified are those heirs descended from Mr. V.S. Welch;  
14 is that correct?

15 A. Or the successors to those heirs. That's  
16 correct.

17 Q. So that's why the State Land Office has  
18 required you to be here today to try to pool those heirs  
19 or successors?

20 A. Yes.

21 Q. Mr. McCright, when did Mr. V.S. Welch pass?

22 A. In 1969.

23 Q. Was his estate probated?

24 A. Yes, it was, in Eddy County. And the estate  
25 was closed in 1972.



1 Q. So there was a final decree in 1972?

2 A. That's correct.

3 Q. Have you obtained a title opinion and  
4 conducted a search to identify all the known heirs,  
5 successors or devisees of Mr. V.S. Welch?

6 A. Yes, we have.

7 Q. How many people have you identified through  
8 that search?

9 A. Seven.

10 Q. So there's seven devisees. Have you been able  
11 to locate all of them?

12 A. Yes, we have. EOG has sent and received  
13 Certified Mail return receipts from all seven parties.

14 Q. And you've been able to get ratifications from  
15 three of them; is that correct?

16 A. That's correct. Four of them have not  
17 returned a ratification of the communitization agreement.

18 Q. And those are the four and any of their  
19 successors that you're seeking to pool today; is that  
20 correct?

21 A. That's correct.

22 Q. In doing so, you would have all the interests  
23 that flowed from Mr. V.S. Welch's estate combined into  
24 this agreement; is that correct?

25 A. Yes.

1 Q. Can you name the four individuals who you've  
2 identified as not having ratified?

3 A. Yes. Phoebe Jane Welch IV, Phoebe Welch,  
4 Sanders Thomas Welch and Wendell Terry Welch.

5 Q. Can you just briefly review for the Examiners  
6 your attempts to contact those individuals?

7 A. We sent certified letters, of course,  
8 containing the communitization agreement and the  
9 ratification and joinder to that agreement to each  
10 individual party firstly in June of 2011.

11 For the parties that failed to respond, about  
12 nine months later, we followed up with a second certified  
13 letter. And out of that group, these four failed to  
14 respond to us.

15 Q. So that was the second letter you sent in  
16 March of 2012; is that's correct?

17 A. That's correct.

18 Q. Exhibit Number 4 is the first letter you sent  
19 out; is that correct?

20 A. I believe so.

21 Q. And for each of the individuals who were  
22 contacted, their green card receipts follow that letter;  
23 is that correct?

24 A. Yes.

25 Q. And Exhibit Number 5 is the follow-up letter

1 in March of 2012?

2 A. Yes, it is.

3 Q. And this letter contains all the green cards  
4 indicating those who received notice of the ratification  
5 request?

6 A. Correct.

7 Q. Thank you, Mr. McCright.

8 In your opinion, has EOG undertaken a  
9 good-faith effort to secure the ratification of these  
10 individuals?

11 A. I believe we have, yes.

12 Q. Mr. McCright, you're also seeking to create a  
13 nonstandard spacing unit in this case. Has EOG brought a  
14 geologist to provide technical testimony on the creation  
15 of this unit?

16 A. Yes.

17 Q. Did EOG also identify all the leased mineral  
18 interests in the 40-acre tracts surrounding the proposed  
19 nonstandard spacing unit?

20 A. Yes.

21 Q. Did EOG include these known leased mineral  
22 interest owners in the notice of this hearing today?

23 A. Yes, we did, and their lessees.

24 Q. Okay. Thank you, Mr. McCright.

25 Is Exhibit Number 7 a copy of the affidavit

1 prepared by your attorney indicating that notice was  
2 provided?

3 A. Yes, it is.

4 Q. And on the subsequent page is a copy of the  
5 letter that was sent out to all offset interests, as well  
6 as those in the spacing unit?

7 A. Yes.

8 Q. And the following pages are all those green  
9 card receipts indicating that those parties received  
10 notice?

11 A. That's correct.

12 Q. Is Exhibit Number 7 sort of a belt and  
13 suspenders approach, a notice of publication, naming the  
14 four individuals who you're seeking to pool?

15 A. Yes, it is.

16 MR. RANKIN: Thank you, Mr. McCright.

17 Mr. Examiners, I would move to admit into  
18 evidence Exhibits Numbers 1 through 7.

19 EXAMINER BROOKS: Okay. Exhibits 1  
20 through 7 are admitted.

21 (Exhibits 1 through 7 were admitted.)

22 MR. RANKIN: Mr. Examiner, I will  
23 reference this again at the end of our case. But I would  
24 ask if, with your approval, that I be able to submit a  
25 proposed order that would meet with Mr. Dawson's

1 conditions and requirements in order to approve the  
2 communitization agreement.

3 EXAMINER BROOKS: Okay.

4 MR. RANKIN: Thank you. I have no further  
5 questions.

6 EXAMINER BROOKS: I guess I have a concern  
7 about that, because if -- I don't have a concern about  
8 submitting a proposed order.

9 But if you're submitting it to comply with Mr.  
10 Dawson's requirements, I wouldn't necessarily know what  
11 was Mr. Dawson's requirements and what was not, and we  
12 might change something. And we wouldn't want to change  
13 something that was necessary to comply with the State  
14 Land Office.

15 So you may wish to submit some discussion of  
16 what provisions might be necessary to satisfy that.

17 MR. RANKIN: Okay. Thank you.

18 I have no further questions of the witness.  
19 I'll pass the witness.

20 EXAMINER BROOKS: I have no questions of  
21 the witness.

22 Mr. Jones?

23 EXAMINER JONES: What happened to Mr.  
24 Hurlbut?

25 THE WITNESS: He reached retirement age

1 and took it.

2 EXAMINER BROOKS: Well, that's kind of  
3 unfortunate, I think, because I believe he is about my  
4 age.

5 THE WITNESS: In one sense, it was an  
6 early retirement.

7 EXAMINER BROOKS: Thank you. Nothing  
8 further.

9 MR. RANKIN: Thank you, Mr. Examiners.  
10 I'll call my second witness, Mr. Bill Morris.

11 BILL MORRIS

12 Having been first duly sworn, testified as follows:

13 DIRECT EXAMINATION

14 BY MR. RANKIN:

15 Q. Mr. Morris, good morning.

16 A. Good morning.

17 Q. Can you please state your name for the record?

18 A. William John Morris.

19 Q. And Mr. Morris, can you please state by whom  
20 you're employed and in what capacity?

21 A. I'm employed by EOG Resources as a petroleum  
22 geologist.

23 Q. Thank you, Mr. Morris. Where do you reside?

24 A. Midland, Texas.

25 Q. Have you previously testified before the

1 Division?

2 A. I have.

3 Q. Mr. Morris, you've had your credentials as an  
4 expert in petroleum geology accepted and made a matter of  
5 record before the Division?

6 A. I have.

7 Q. Are you familiar with the application that was  
8 filed in this case?

9 A. I am.

10 Q. Have you done a study of the subject lands?

11 A. I have.

12 MR. RANKIN: Mr. Examiner, I would tender  
13 Mr. Morris as an expert in petroleum geology.

14 EXAMINER BROOKS: He is so accepted.

15 MR. RANKIN: Thank you.

16 Q. (By Mr. Rankin) Mr. Morris, please, if you  
17 would, turn to what's been marked Exhibit Number 8.  
18 Please review for the Examiners what this exhibit shows.

19 A. Exhibit 8 is a structure map of the subject  
20 area of the well. The well path is shown in the south  
21 half of Section 1.

22 The structure map is on top of the producing  
23 formation. It shows that the dip is fairly strong and  
24 essentially dips from the north to the south.

25 In the next exhibit, the line of cross-section

1 is the blue line that crosses the well path in the south  
2 half of the south half.

3 Q. Thank you. Let's turn to that exhibit now,  
4 Exhibit Number 9, which is the cross-section. Can you  
5 review for the Examiners what this cross-section shows?

6 A. This cross-section shows the well path of the  
7 subject well. The pilot hole well is shown on the very  
8 left at the zero mark, and the lateral that we drilled is  
9 represented by the gamma ray on the left side which is  
10 multicolored. The depth column is in the center. It's  
11 mark by hundred-foot depth intervals.

12 The next column is the lithology as recorded  
13 by the mud logger. The yellow shaded area with the black  
14 dots is representative of sandstone, which is the  
15 producing formation. And you can see, that is pretty  
16 continuous throughout the lateral well path. The black  
17 blocks just above that represent the oil shows that we  
18 got. The blue shaded area is the rate of penetration by  
19 the drill bit, and the yellow shade is the gas that was  
20 reported from the mud logger.

21 Q. And what does this cross-section tell you  
22 about the capacity for this nonstandard unit for  
23 producing through a horizontal well?

24 A. This shows that we penetrated the producing  
25 formation at approximately 500 feet out into -- from the



1 surface location, and that the sand and reservoir it  
2 shows is pretty continuous throughout the full length of  
3 the south half of the south half.

4 Q. So based on the drilling of this well and  
5 production, you found that there was no geologic  
6 impediment in developing this unit as a horizontal well?

7 A. Right. We saw no faulting or lithology  
8 barriers or pinchouts or anything like that that would  
9 inhibit production from the entire length of the  
10 wellbore.

11 Q. In your opinion, the area has been and can  
12 continue to be efficiently and effectively drained by  
13 this horizontal well?

14 A. Right. EOG has drilled over 10 wells in this  
15 area shown on the map, and we feel that horizontally is  
16 the way to produce this formation.

17 Q. And also in your opinion, based on the  
18 drilling and production of this well, there's no reason  
19 to believe that one of the 40-acre units would produce  
20 disproportionate to the other?

21 A. I think the cross-section clearly shows that  
22 all parts of the wellbore are contributing relatively  
23 equally to the production.

24 Q. I think, as you've already touched on, this  
25 cross-section map also indicates that the full completed

1 interval of this wellbore is within the required setbacks  
2 of the --

3 A. Right. The pilot hole is drilled 240 feet  
4 from the lease line and approximately 500 feet before we  
5 perforated it into the proration unit, and the well TD'd  
6 400 feet from the lease line on the west side. So it's  
7 all within the producing area.

8 Q. Thank you, Mr. Morris.

9 Were these Exhibit Numbers 8 and 9 prepared by  
10 you or under your supervision?

11 A. They were.

12 MR. RANKIN: Mr. Examiner, I would move to  
13 admit into evidence Exhibits 8 and 9.

14 EXAMINER BROOKS: Very good. Exhibits 8  
15 and 9 are admitted.

16 (Exhibits 8 and 9 were admitted.)

17 Q. (By Mr. Rankin) Mr. Morris, in your opinion,  
18 will the granting of this application be in the interest  
19 of conservation of natural resources, prevention of waste  
20 and the protection of correlative rights?

21 A. Yes, it would.

22 MR. RANKIN: Thank you, Mr. Morris.

23 Mr. Examiner, I pass the witness. I have no  
24 further questions.

25 EXAMINER BROOKS: Very good. I have no

1 questions.

2 Mr. Jones?

3 EXAMINATION

4 BY EXAMINER JONES:

5 Q. Did you see fractures along this route?

6 A. No, not really.

7 Q. But you think drilling along strike is the way  
8 to go?

9 A. We largely drilled in that direction to --  
10 because we were afraid that we may run out of reservoir  
11 if we drilled in the north/south direction.

12 Q. And this little -- what is this at 2,600 to  
13 2,800 feet?

14 A. That's a little bit of dolomite that we  
15 encountered there. That pink is representative of  
16 dolomite. As you see on the curve on the left side,  
17 there is some dolomite out in that area.

18 Q. It just showed up right out there in the  
19 middle?

20 A. Yeah. The sand does thicken and thin in  
21 places, and -- you know, these -- there are some thin  
22 dolomite stringers or intervals within there that do  
23 occasionally come in that you can't totally predict.

24 Q. Do you get real time data from the mud loggers  
25 while you're in your office?

1           A.     Right, we do. Well, it's not real time. They  
2     send it in email, you know, two or three or four times a  
3     day, whenever we -- however we set it up. So we're not  
4     monitoring it every minute of the day.

5           Q.     This is very nice, Exhibit Number 9.

6           A.     It helps a lot to help us with our wells. As  
7     we're drilling, we do complete it and monitor it in that  
8     way. It's very helpful.

9           Q.     This F sand, does that correspond to the Bone  
10    Spring Number 2 or something like that?

11          A.     That's what we call the reservoir sand,  
12    because the Second Bone Spring Sand is broken up into a  
13    number of different sands. And it's just our designation  
14    for the producing interval.

15          Q.     But it is in the Second Bone Spring Sand?

16          A.     Yeah. It's in the lower-most part of the  
17    Second Bone Spring Sand.

18          Q.     But did that sand on the pilot hole -- can you  
19    show me where that sand started on the pilot hole?

20          A.     Yeah. On the pilot hole, it started at about  
21    minus 4,100 feet or just a little below that.

22          Q.     You say you're in the bottom part of it?

23          A.     Yeah. The Third Bone Spring carbonate starts  
24    just at the very bottom of that pilot hole log. Do you  
25    see where the gamma ray kind of cleans up and turns

1 greener? You start to pick up dolomite and some chert  
2 down in there. And that's the approximate top of the  
3 Third Bone Spring carbonate.

4 EXAMINER JONES: Thank you very much.

5 EXAMINER BROOKS: Thank you, sir.

6 I have nothing further.

7 MR. RANKIN: No further questions myself.

8 EXAMINER BROOKS: That concludes your  
9 case?

10 MR. RANKIN: That concludes my case.

11 EXAMINER BROOKS: Very well. Case Number  
12 14881 will be taken under advisement.

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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. 14881  
heard by me on 8-9-2012

David K. Burt Examiner  
Oil Conservation Division

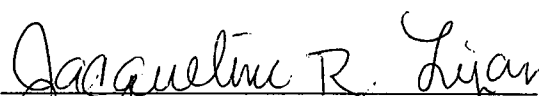
## REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on August 9, 2012, the 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 20th day of August, 2012.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2012