

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
DEPARTMENT OIL CONSERVATION DIVISION

COPY

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

AMENDED APPLICATION OF EOG CASE NO. 15126
RESOURCES, INC. FOR CREATION
OF A NONSTANDARD 160-ACRE
SPACING AND PRORATION UNIT
FOR ALL FORMATIONS AND/OR
POOLS DEVELOPED ON 40-ACRE
SPACING FROM THE SURFACE TO
THE BASE OF THE BONE SPRINGS
FORMATION, FOR CREATION OF A
NONSTANDARD 320-ACRE SPACING
AND PRORATION UNIT IN THE
WOLFCAMP FORMATION, AND FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

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REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

June 12, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, TECHNICAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Richard Ezeanyim,
Chief Examiner, on Thursday, June 12, 2014, at the New
Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

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2 FOR APPLICANT EOG RESOURCES, INC.:

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1 (10:19 a.m.)

2 EXAMINER EZEANYIM: At this time I call
3 Case Number 15126. It's continued from May 29th, two
4 weeks ago. This is the amended application of EOG
5 Resource, Inc. for creation of a nonstandard 160-acre
6 spacing and proration unit for all formations or pools
7 developed on 40-acre spacing from the surface to the
8 base of the Bone Spring Formation, for a creation of a
9 nonstandard 320-acre and spacing proration in the
10 Wolfcamp Formation, and for compulsory pooling, Lea
11 County, New Mexico.

12 Call for appearances.

13 MR. RANKIN: Thank you, Mr. Examiner. Adam
14 Rankin, Holland & Hart, on behalf of EOG Resources, and
15 I have two witnesses for today's hearing.

16 EXAMINER EZEANYIM: Thank you.

17 Any other appearances?

18 Okay. At this time, the two witnesses will
19 stand up, state your name for the record and be sworn
20 for the record.

21 MR. McCRIGHT: My name is Dan McCright.

22 MR. GARRISON: My name is Matt Garrison.

23 (Mr. McCright and Mr. Garrison sworn.)

24 EXAMINER EZEANYIM: You may proceed.

25 MR. RANKIN: Thank you, Mr. Examiner. I

1 call my first witness, Mr. Dan McCright.

2 EXAMINER EZEANYIM: You may proceed.

3 MR. RANKIN: Thank you,

4 Mr. Examiner.

5 DAN McCRIGHT,

6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. RANKIN:

10 Q. Mr. McCright, will you please state your full
11 name for the record.

12 A. My name is Dan McCright.

13 Q. And where do you live?

14 A. I live in Midland, Texas.

15 Q. And by whom are you employed?

16 A. I'm employed by EOG Resources, Inc. as a
17 landman.

18 Q. And have you previously testified here before
19 the Oil Conservation Division?

20 A. I have.

21 Q. And have you had your credentials as an expert
22 in petroleum land matters accepted and made a matter of
23 record?

24 A. Yes, I have.

25 Q. Are you familiar with the application that was

1 filed in this case?

2 A. I am.

3 Q. And are you familiar with the status of the
4 lands at issue here?

5 A. Yes.

6 MR. RANKIN: Mr. Examiner, I tender
7 Mr. McCright as an expert in petroleum land matters.

8 EXAMINER EZEANYIM: He is so qualified.

9 MR. RANKIN: Thank you.

10 Q. (BY MR. RANKIN) Mr. McCright, would you please
11 explain for the Examiner what it is that EOG is seeking
12 with this application, and would you please review for
13 the Examiner what's been marked as Exhibit Number 1 when
14 you do so?

15 A. Yes. EOG is seeking an order from the
16 Commission creating a nonstandard 160-acre spacing and
17 proration unit comprised of the east half of the
18 southeast quarter of Section 22 and the east half of the
19 northeast quarter of Section 27 in Township 26 South,
20 Range 33 East, Lea County, New Mexico, and for all
21 formations and pools from the top of the Bone Spring to
22 the base of the Bone Spring in the Bradley Bone Spring
23 pool, Pool Number 7. We have it on our exhibit back
24 here. Let's see.

25 EXAMINER EZEANYIM: Let's get that on the

1 record. Is it the top of the Bone Spring to the base of
2 the Bone Spring from the surface to the base of the Bone
3 Spring?

4 THE WITNESS: It is not from the surface,
5 Mr. Examiner. It's from the top of the Bone Spring --

6 EXAMINER EZEANYIM: To the base of the Bone
7 Spring?

8 THE WITNESS: Yes, sir. There is another
9 well in this 160-acre spacing unit that was assigned to
10 the Red Hills Upper Shale pool, which was a Leonard
11 Avalon well, and the well that we are drilling is in the
12 3rd Bone Spring pay.

13 MR. RANKIN: So it's being modified from
14 the notice on the application.

15 EXAMINER EZEANYIM: Yes. When it says
16 "from the surface to the base of the Bone Spring," that
17 means from the top of the Bone Spring to the base of the
18 Bone Spring? Is that what we are asking for here?

19 THE WITNESS: Yes, sir. I believe that's
20 correct.

21 Q. (BY MR. RANKIN) Mr. McCright, are you also
22 seeking to pool all the uncommitted mineral interests in
23 that 160-acre spacing unit? Is that correct?

24 A. That is correct.

25 Q. And are you then no longer seeking to create a

1 nonstandard 320-acre spacing unit for the Wolfcamp
2 Formation?

3 A. No, we are not.

4 Q. So you are also not seeking to pool any
5 interests within the Wolfcamp?

6 A. That's correct.

7 Q. So you're just -- this application is now just
8 limited to a 160-acre spacing unit in the Bone Spring
9 Formation?

10 A. That's correct.

11 EXAMINER EZEANYIM: Okay. As a land
12 person, let's explore that. In the first place, you are
13 asking for a 320 for gas, right, in the Wolfcamp?
14 That's standard in the Wolfcamp; is it not?

15 MR. RANKIN: I'm not entirely sure about
16 the spacing in the Wolfcamp, but that's being dismissed
17 from the application. So we're just pooling for the
18 Bone Spring.

19 EXAMINER EZEANYIM: So you're not going to
20 ask for the formation of the 320 because it's not
21 non- -- it's not nonstandard? Is that the correct
22 English? It's not nonstandard. What does that mean?

23 MR. RANKIN: It's standard, I guess.

24 EXAMINER EZEANYIM: It's standard, right,
25 for the Wolfcamp and the --

1 MR. RANKIN: Yeah. I'm not entirely
2 certain of the Wolfcamp here, but that's being dismissed
3 from the case.

4 EXAMINER EZEANYIM: Is it because you found
5 out that it's standard?

6 MR. RANKIN: Well, we can discuss the
7 reason for it momentarily, but right now the target
8 interval is limited to the Bone Spring. So that's the
9 portion that they're seeking to pool.

10 EXAMINER EZEANYIM: And they're only
11 forming the 160?

12 MR. RANKIN: Correct.

13 EXAMINER EZEANYIM: No more 320?

14 MR. RANKIN: Correct.

15 EXAMINER EZEANYIM: That could be
16 dismissed?

17 THE WITNESS: Yes, sir.

18 MR. RANKIN: Correct.

19 EXAMINER EZEANYIM: Okay. Go ahead.

20 MR. RANKIN: Thank you, Mr. Examiner.

21 Q. (BY MR. RANKIN) Mr. McCright, has the Division
22 approved similar horizontal wells in the Bone Spring in
23 this area?

24 A. I believe they have.

25 Q. And does EOG also request that they be made the

1 operator of the well and the proration unit?

2 A. Yes, we do.

3 Q. And looking at what's been marked as Exhibit
4 Number 2, Mr. McCright, is this a copy of the C-102 that
5 the EOG intends to file with the Division?

6 A. That's correct. We intend to file this plat
7 with the as-drilled data. You'll note the name change
8 to the Ophelia 27 602H. This is strictly an EOG naming
9 convention change. This well was drilled from the same
10 surface location as the 702H.

11 Q. Mr. McCright, in addition to the name change
12 and the well number convention change, what else has
13 changed with respect to the C-102 from the previous
14 C-102 on file with the Division?

15 A. The previous C-102 filed shows the 320-acre
16 spacing for Wolfcamp depth. This one, of course, is
17 reduced to 160 acres.

18 Q. And, Mr. McCright, just for the record, has
19 this well been drilled?

20 A. Yes. It's been drilled and cased, and it is
21 currently waiting on completion.

22 Q. So does EOG have a schedule for completing the
23 well?

24 A. Yes. We're trying to have that lined up on our
25 frack schedule within the next couple of weeks.

1 Q. And as a consequence of that timing, would EOG
2 request an expedited order in this case?

3 A. Yes, we would.

4 Q. Mr. McCright, will the entire completed
5 wellbore for this well comply with all the setback
6 requirements under the Division rules?

7 A. Yes, it will.

8 Q. And are the lands at issue here within Section
9 22 and Section 27 all fee lands?

10 A. They are. They're owned, hypothetically.

11 Q. So it's common ownership across both --

12 A. That's correct.

13 Q. And looking at what's been marked as Exhibit
14 Number 3, Mr. McCright, can you review for the Examiner
15 what this lease tract map shows?

16 A. What it shows in yellow is the east half of the
17 southeast quarter of Section 22 and the east half of the
18 northeast quarter of section 27, both in Township 26
19 South, Range 26 East. I believe I see an error in the
20 caption to this exhibit where I show Township 19 South.
21 Let's see. It should be 26 South, 33 East. I apologize
22 for the error.

23 Also shown on this, within that 160-acre
24 spacing unit, is a wellbore with a surface location and
25 upper lower perf indicated by red circles.

1 Q. Mr. McCright, the Texas state line is just
2 about a mile south of the location of the well; is that
3 correct?

4 A. That's correct.

5 Q. What else does this exhibit show with respect
6 to owner interests? Did you already review that?

7 A. Restate your question.

8 Q. What else does the exhibit show with respect to
9 the ownership interests in the property? Did you
10 already review that?

11 A. I believe I did.

12 Q. Okay.

13 A. Just that all tracts within this proposed
14 spacing unit are fee tracts that have common ownership.

15 Q. And the two parties you're seeking to pool are
16 identified at the bottom of the exhibit; is that
17 correct?

18 A. That's correct. I've got a tabulation there of
19 the working interest and the uncommitted mineral owners.

20 Q. And what efforts have you undertaken to reach
21 an agreement with these two parties that you're seeking
22 to pool?

23 A. We proposed the wells and the cost estimate in
24 the event that they elected to participate in drilling
25 the well. We never got a response from them. Within

1 that letter, we also restated our desire to enter into
2 an oil and gas lease with them, but we've been unable to
3 come to terms with both parties.

4 Q. Now, is Exhibit 4 a copy of the well-proposal
5 letter, the AFE, that was sent to the parties?

6 A. Yes, it is.

7 Q. In addition to this initial well-proposal
8 letter, did EOG have further communications with these
9 two parties?

10 A. Yes. Various, e-mails and that kind of thing.
11 And also when the -- we sent them a supplemental well
12 proposal when we had to change the -- from the 701 to
13 the 702.

14 Q. Okay. So you kept the parties abreast of all
15 changes or modifications to the well throughout the
16 process?

17 A. Yes. Yes.

18 Q. So in addition -- I think you already stated
19 this, but in addition to making an offer to join in the
20 well, you also made an offer to lease; is that correct?

21 A. That's correct.

22 Q. To both parties?

23 A. On multiple occasions, yes.

24 Q. Now, with respect to the AFE that you sent to
25 the parties, are the costs that are reflected in the AFE

1 consistent with what EOG has incurred with similar wells
2 in the area?

3 A. Yes. That's been our experience.

4 Q. Has EOG made an estimate of the overhead and
5 administrative costs while drilling the well and also
6 while producing the well?

7 A. Yes, we have.

8 Q. And what are those -- what are those costs?

9 A. A drilling rate of \$6,000 per month and a
10 producing rate of \$600 per month.

11 Q. And are those costs consistent with JOAs that
12 have been negotiated in the area?

13 A. Yes. In my experience, yes.

14 Q. Does EOG request that these figures be
15 incorporated into any order that results from this
16 hearing?

17 A. Yes, we do.

18 Q. Do you also request that the rates be
19 periodically adjusted in accordance with the COPAS
20 accounting procedures?

21 A. Yes, we do.

22 Q. Did EOG, in preparing this application,
23 identify all the surrounding lease mineral interest
24 owners surrounding the proposed 160-acre proration unit?

25 A. Yes, we did.

1 Q. And did you provide them notice of this hearing.
2 today?

3 A. Yes, we did.

4 Q. Mr. McCright, is Exhibit 5 a copy of the
5 affidavit from my law office indicating that we provided
6 notice to all pool parties in the offsetting interests?

7 A. Yes, I believe it is.

8 Q. And behind that affidavit, is that a copy of
9 the letter that went out to the offsetting interests and
10 operators?

11 A. Yes. Yes, it is.

12 Q. And, also, a copy of the letter went to all the
13 pool parties, following that page?

14 A. Yes.

15 Q. And a list of all the interest owners who
16 received notice, as well as a copy of the certified
17 receipts for the mail-outs?

18 A. That's correct.

19 Q. Mr. McCright, were Exhibits 1 through 5 either
20 prepared by you or under your direct supervision with
21 business records from EOG Resources?

22 A. Yes, they were.

23 MR. RANKIN: Mr. Examiner, I would move
24 into the record Exhibits 1 through 5.

25 EXAMINER EZEANYIM: Exhibits 1 through 5

1 will be admitted.

2 (EOG Resources, Inc. Exhibit Numbers 1
3 through 5 were offered and admitted into
4 evidence.)

5 MR. RANKIN: I have no further questions of
6 the witness.

7 EXAMINER EZEANYIM: Okay. Thank you very
8 much.

9 CROSS-EXAMINATION

10 BY EXAMINER EZEANYIM:

11 Q. The well has already been drilled, right?

12 A. Sir?

13 Q. The well has already been drilled?

14 A. That's correct, drilled and cased.

15 Q. At the time you were drilling that well, did
16 you anticipate to pool anybody? Under what condition
17 did you drill the well?

18 A. I'm sorry, sir. I didn't understand.

19 Q. Under what condition did you drill the well?
20 You drilled the well, right?

21 A. We drilled the well with the --

22 Q. Did you know you were going to do compulsory
23 pooling before you drilled the well?

24 A. Well, sir, our drilling schedule and completion
25 schedule and so forth didn't allow us to move that

1 beyond the point that we're here today.

2 Q. Well, you drilled at your risk, because if the
3 compulsory is denied, then you drilled a well that
4 cannot be completed.

5 A. Yes, sir.

6 Q. Well, you drill -- I mean, you could do that.
7 I'm not saying you can't. And I agree with you. If you
8 have a rig, you don't want it to be -- leave it to pay
9 \$1,000 a day. You can drill it, but you are drilling at
10 your own risk. But I wanted to know why you drilled the
11 well before you come in to get your compulsory pooling
12 order approved. However, that's okay.

13 What is the meaning of common ownership and
14 identical ownership?

15 A. The tract in east half-southeast of Section 22
16 and the east half of the northeast of Section 27 have
17 the exact same mineral ownership. The same parties own
18 an identical interest in both tracts.

19 Q. Identical in the same percent and everything,
20 right?

21 A. Yes, sir. That's correct.

22 Q. That's good.

23 So how many of those interest owners are we
24 pooling today? Two of them or three of them? How many?

25 A. Just two, sir.

1 Q. One of them is Debra Kay. But now who is that
2 other one?

3 A. Ricky D. Raindl, her brother.

4 Q. They don't want to participate in the well?

5 A. Apparently not. They did not respond to me
6 within the month of when I sent them the proposal.

7 Q. And you sent the proposal with return receipt
8 sent back to you?

9 A. Yes, it was.

10 Q. So they didn't want -- you know they got the
11 information?

12 A. I know that they received the proposal, that's
13 correct.

14 Q. So there is really no reason to publish in the
15 paper or any circulation?

16 A. Yes, sir. I believe that's right.

17 Q. There is no need because you know they got the
18 information?

19 A. That's correct.

20 Q. How do we know that?

21 MR. RANKIN: Mr. Examiner, Mr. McCright
22 testified that he had further communications with both
23 parties, e-mails and further conversations about
24 potential lease terms.

25 Q. (BY EXAMINER EZEANYIM) And they refused to

1 participate?

2 A. Yes, sir.

3 Q. What type of working interest is it? They are
4 not working interests? They are just royalty interests?
5 They're not working interests?

6 A. Yes, sir. That's correct. Roughly four-tenths
7 of 1 percent mineral interest owners each.

8 Q. Okay. What did you say about your overhead
9 rates? What are your overhead rates?

10 A. We're applying for a \$6,000 drilling rate and a
11 \$600 producing rate.

12 Q. I think as a land person now, I'm going to ask
13 you about that configuration of the well. You chopped
14 off 80 [sic] acres and you're joining it with 27?

15 A. Yes, sir.

16 Q. I wanted to see how you are going to manage
17 your lands so that we don't have any acreage stranded.

18 A. Yes, sir.

19 Q. So how are we going to manage that land so we
20 don't have any acreage stranded?

21 A. Yes, sir. If we could go back to Exhibit 3, if
22 you'll see to the south of the proposed proration and
23 spacing unit, there is approximately one mile between
24 the south boundary line of the proposed unit and the
25 state line boundary between New Mexico and state of

1 Texas. The one mile, of course, is generally what we
2 consider the length of wellbore that we need to complete
3 an economic well considering the depths and so forth.
4 At one time, we had -- in Section 34, which is the half
5 section there right on the state line, we had made a
6 trade to acquire that acreage, and, therefore, we own
7 100 percent of that one mile in there, EOG does, in
8 order to be able to develop that acreage.

9 Q. Okay. So you own -- you're going to the north
10 half of 34, right?

11 A. Yes, sir.

12 Q. North half of -- who owns the south half?
13 South half, is that in Texas? No. No, it's not in
14 Texas. Section 34 is in New Mexico, right?

15 A. That's correct.

16 Q. Who owns Section 34?

17 A. Section 34, EOG Resources owns the working
18 interest under the effective lease.

19 Q. In Section 34?

20 A. Yes, sir, in 34, as well as the south half of
21 Section 27.

22 Q. Okay. Yeah. Yeah, the south half. Okay.

23 So we are going to drill this north-south
24 horizontal wells, and I can see you are going to
25 drill -- what is the name of this well? You changed the

1 name of the well administratively. What is the name of
2 the well?

3 A. The name of the well today is the Ophelia 27
4 Number 702H. At completion --

5 Q. Not the 701?

6 A. No, sir. The 701 was the dry hole, the casing
7 part and the subsequent P&A.

8 The 702 was drilled as a Wolfcamp test, but
9 the decision was made to complete in the -- drill our
10 lateral out in the 3rd Bone Spring and attempt a
11 completion there.

12 We will change the name of the 702H to the
13 602H by filing the 602H plat that you see is a prior
14 exhibit and file that with sundry notice with the
15 completion data that we furnished to the OCD.

16 Q. Change 702 to 602?

17 A. Yes, sir.

18 Q. Initially it was 702?

19 A. 701 was the first well drilled.

20 Q. Yeah, but that wasn't on the docket.

21 A. Right.

22 The 702 was the one that was actually
23 drilled to total depth, and then subsequently the
24 decision -- a management decision was made to complete
25 it in the 3rd Bone Spring, and, therefore, we're going

1 to change the name according to EOG's naming internal
2 plan [sic] convention.

3 Q. And that name will be 602?

4 A. It'll be the 602H, yes, sir.

5 Q. If you didn't say that, I would have put in the
6 order "702H," which is 40. That's not right. Okay.

7 Now, let's go back to that Section 22 and
8 27. Are you going to drill one-mile horizontal wells in
9 those --

10 A. In 34 -- in the south half of 27? I'm sorry.

11 Q. No. In 22 and 27, the south half of 22 and
12 then the north half of 27 --

13 A. Yes, sir. The mineral ownership is identical
14 all the way across that 640 acres.

15 Q. Okay. And you're going to drill one-mile
16 horizontal wells in the vacant one, two, three proration
17 units?

18 A. Yes, sir. That's our intention.

19 Q. And then ownership is identical, also?

20 A. Yes, sir. That's correct.

21 Q. You know why I'm asking you that? Because if
22 you don't want anything there, when you drill this, then
23 people here may not want to drill 120 --

24 A. Yes, sir.

25 Q. -- or something. But if you are going to

1 drill -- and this is for the record, because the record
2 will reflect that EOG intends to drill four horizontal
3 wells north-south in those two sections, right?

4 A. Yes, sir. Yes, sir.

5 Q. Okay. I thought you would understand where I'm
6 going in asking you these questions. Right?

7 MR. RANKIN: Yeah, we do. Yeah.

8 EXAMINER EZEANYIM: Maybe you can explain
9 to him why we don't want any stranded acreage.

10 MR. RANKIN: We understand that,
11 Mr. Examiner.

12 EXAMINER EZEANYIM: So unless somebody else
13 wants to drill on the north half of 22, if the geology
14 says that the north-south is more productive, then we
15 have to join with the other sections. We need to have
16 an orderly production -- you know, development.

17 THE WITNESS: Yes, sir.

18 Q. (BY EXAMINER EZEANYIM) We don't want to leave
19 one 40-acre in the middle, and then I don't know what to
20 do with --

21 A. Yes, sir.

22 Q. Your name is Mr. McCright, right?

23 A. Yes, sir.

24 Q. You know what I'm saying?

25 A. I do.

1 Q. And you know why I'm saying that?

2 A. Yes, sir, I do. And I believe that our team --
3 that if the results that we get in our drilling program
4 justify it, we will accomplish exactly what you're
5 intending.

6 Q. Okay. Very good.

7 We need to have that name change. Send it
8 by e-mail, so we can replace that 701 to whatever you
9 finally -- you may change it -- might even change it to
10 502. I don't know. But whatever you come up with, we
11 need to have the correct name of the well. I hope the
12 API number is not changing --

13 A. No, sir, it's not.

14 Q. -- as you change the name of the well, because
15 the API is unique to the well --

16 A. That's correct.

17 Q. -- that you drill.

18 You did make sure that these people want to
19 participate or they don't want to participate?

20 A. That's correct.

21 Q. Do you know why they don't want to? They think
22 drilling north-south is not appropriate? I mean, what
23 reason did they give you?

24 A. Well, it's a \$6 million AFE. That's a lot of
25 money. Even though they've got a small interest, still,

1 you know, they just may not feel they're willing to take
2 that kind of risk, I suppose.

3 Q. They are not working interest owners.

4 A. Sir?

5 Q. Are they working interest owners? Those two,
6 are they working interests?

7 A. No. They have minerals only.

8 Q. They are realizing [sic]? Yes?

9 A. Yes, sir.

10 Q. They don't have to pay part of the six million.

11 A. No.

12 Q. I mean, I'm just wondering why they don't want
13 to --

14 MR. RANKIN: They have an option to
15 participate in the well or lease the well -- I mean
16 lease their interest.

17 EXAMINER EZEANYIM: Oh. They don't want to
18 do either?

19 THE WITNESS: Correct.

20 EXAMINER EZEANYIM: I know now. Very good.
21 Okay. You may step down.

22 THE WITNESS: Thank you.

23 EXAMINER EZEANYIM: Call your next witness.

24 MR. RANKIN: My next witness is Mr. Matt
25 Garrison.

1 EXAMINER EZEANYIM: Mr. Garrison, you are
2 still under oath.

3 MATTHEW GARRISON,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. RANKIN:

8 Q. Mr. Garrison, for the record, can you please
9 state your full name?

10 A. Matthew Garrison.

11 Q. And where do you reside?

12 A. Midland, Texas.

13 Q. And who is your employer?

14 A. EOG Resources.

15 Q. In what capacity do you work for EOG?

16 A. I'm the exploration manager.

17 Q. And have you previously testified before the
18 Oil Conservation Division?

19 A. Yes, I have.

20 Q. And in doing so, did you have your credentials
21 as an expert in petroleum geology made a matter of
22 record and accepted by the Division?

23 A. Yes, I have.

24 Q. And have you conducted a study of the geology
25 of the lands at issue in this case?

1 A. Yes, I have.

2 Q. And are you familiar with the application that
3 was filed?

4 A. Yes, I am.

5 MR. RANKIN: Mr. Examiner, I'd like to
6 tender Mr. Garrison as an expert in petroleum geology
7 matters.

8 EXAMINER EZEANYIM: So qualified.

9 MR. RANKIN: Thank you very much.

10 Q. (BY MR. RANKIN) Mr. Garrison, with respect to
11 your study of the geology of the land at issue, you also
12 prepared some exhibits for today's hearing?

13 A. I have, yes.

14 Q. Can you please review for the Examiner your
15 Exhibit Number 6?

16 A. Exhibit Number 6 is kind of a zoomed-in map
17 showing the immediate sections surrounding our 160-acre
18 plot that we're here to talk about today. The wells
19 that are inside the yellow box, there are two wells that
20 have been drilled inside that 160 acres. The one with
21 the red circle indicating the surface-hole location and
22 the bottom-hole location, being a diamond, is the
23 Ophelia 27 702H. And so that's the one that we're
24 filing for an amended name change.

25 But the well that's just to the east of

1 that is the Ophelia 27 #1H, and that is a Leonard
2 Shale-Avalon producer that EOG Resources drilled and is
3 producing.

4 The wells over -- the horizontal wells that
5 you see in Sections 25 and 36 are EOG Resources'
6 Leonard-Avalon Shale producers. This is part of a trend
7 that we are -- we have a pretty substantial acreage
8 block down here, and so we're quite familiar with the
9 stratigraphy.

10 The other wells that are noted here, the
11 vertical wells are just kind of our -- are all the wells
12 that have been drilled in this portion of 26-33, so it's
13 just mainly just an area overview map.

14 Q. Mr. Garrison, will you review for the Examiner
15 what Exhibit Number 7 shows?

16 A. Yes. When we drilled this well, we took a
17 pilot log. So we went down and we looked at the
18 Wolfcamp, and we logged the Wolfcamp and all the way
19 through the Bone Spring. And we decided, after
20 reviewing the logs, that we wanted to go horizontal in
21 the 3rd Bone Spring, so this map here reflects the
22 structure at the top of the 3rd Bone Spring Sand. The
23 wells now -- the map has been cleaned up. So what you
24 don't see are all the other vertical wells that are in
25 the area.

1 So what you see, for reference and scale,
2 the yellow block down there on the south portion of our
3 map is our 160-acre plot that we're talking about, and
4 the well annotated in that plot is the -- the red symbol
5 is our 702H.

6 The other horizontals you see in 25-33 and
7 25-34 townships are 3rd Bone Spring horizontal producers
8 that have been drilled either by EOG Resources or by
9 other operators. So you can see this will -- this will
10 extend the play of the 3rd Bone Spring, we think, down
11 into -- down into this township, which has no producers
12 so far to date. But what you see there is a structure
13 map at the top of the 3rd Bone Spring Sand.

14 Q. And Exhibit Number 9?

15 A. Exhibit Number 9 is an isopach map, again the
16 same wells that you see on the previous map. We've just
17 kind of cleaned it up because there are a lot of
18 verticals in the area. And you can see the average
19 isopach value across our portion of the township is
20 somewhere around 420 feet thick.

21 EXAMINER EZEANYIM: Do you mean that
22 Exhibit Number 8 is the isopach?

23 THE WITNESS: Did I skip an exhibit? I'm
24 sorry. I think maybe I got maybe the wrong -- yeah.

25 EXAMINER EZEANYIM: You are talking about

1 Number 8 for the isopach?

2 THE WITNESS: Yes. I'm sorry. I'm off one
3 number here. You saw our lease map, then, Mr. Examiner?

4 EXAMINER EZEANYIM: Yeah.

5 THE WITNESS: And then you saw our
6 structure map there?

7 EXAMINER EZEANYIM: Yeah.

8 THE WITNESS: And then the isopach map is
9 the same set of wells, just an isopach thickness of the
10 sand, which is from the top of the sand to the top of
11 the Wolfcamp Shale. That's our mapped interval.

12 EXAMINER EZEANYIM: Most of those wells,
13 they are east-west?

14 THE WITNESS: Yes. A lot of the wells in
15 the past have been drilled east-west, and they were --
16 the wells that EOG has drilled in 25-33 and 25-34, a lot
17 of those wells are horizontal water-injector wells for
18 the Red Hills North Unit 3rd Bone Spring field, so they
19 were for pressure maintenance.

20 The other operators, I guess, assumed that
21 we were drilling them that way because we felt like that
22 was the right azimuth at the time. Today, we believe
23 that the azimuth is north-south. It's a better azimuth.

24 Q. (BY MR. RANKIN) Mr. Garrison, Exhibit Number 9,
25 can you review for the Examiner what that shows?

1 A. Yes. That is, again, a zoomed-in area showing
2 the original well groupings, EOG's horizontal Leonard
3 Shale producers to the east and the Ophelia 702
4 location. And all I've done for this map is just to
5 show the cross-section line, A to A prime.

6 Q. And Exhibit Number 10, does that exhibit show
7 the actual cross section?

8 A. That's correct.

9 Q. Can you review for the Examiner what that cross
10 section shows?

11 A. Yes. The three wells that we have that are
12 nearest the location of the Ophelia 27 702 are the State
13 IT #1H. Of course, our pilot here, the 27 702, that's
14 the logs that we got from drilling this well.

15 And the Rattlesnake Fed #1 well, which are
16 located in the area, the tracks from left to right,
17 track one is the gamma ray. Track two is resistivity --
18 deep resistivity. Track three is the neutron porosity
19 and the density porosity. And so we've annotated on our
20 target log the Ophelia 27 702 where we chose to go
21 horizontal in the 3rd Bone Spring. So the lateral
22 interval is annotated on type log number two.

23 And just for the record, on the Rattlesnake
24 Fed #1, the hole conditions, we think, at the 3rd Bone
25 Spring were pretty bad, pretty rugose hole conditions.

1 And I think that's because they had to mud-up in the
2 Wolfcamp, and they have some bad log data there at the
3 base of the 3rd Bone Spring. So, unfortunately, we just
4 didn't have a whole lot of control. That's why we
5 drilled our own pilot hole to see what we had. But we
6 don't believe that's real, necessarily. We think that's
7 washout conditions.

8 EXAMINER EZEANYIM: Who drilled the
9 Rattlesnake?

10 THE WITNESS: Yates owns the well
11 currently, but it was an older well. I'm not sure who
12 originally drilled it. I'd have to go back and look. I
13 believe it's Yates that owns it currently.

14 Q. (BY MR. RANKIN) Mr. Garrison, based on your
15 analysis and review of the geology of the area, have you
16 formed an opinion about whether this proration unit can
17 be efficiently and effectively developed by horizontal
18 wells?

19 A. Yes.

20 Q. And what is your opinion?

21 A. I believe it can.

22 Q. And based on your analysis and review, have you
23 identified any faults or pinch-outs or geologic
24 impediments to interfere with the development of that
25 horizontal well?

1 A. We saw no evidence of faulting or pinch-outs in
2 the drilling of that well.

3 Q. Have you determined, based on your analysis,
4 that the formation you are seeking to pool is consistent
5 throughout the proration unit that you're seeking to
6 pool?

7 A. Yes, I do.

8 Q. So you've identified that the formation is
9 located across the entire -- across the entire proration
10 unit?

11 A. It is, yes.

12 Q. And are the wells that you used to create your
13 cross section, in your opinion, are they representative
14 of the geology of the area?

15 A. Yes, they are, especially with our well that we
16 logged ourselves.

17 Q. Is it your opinion that the production from
18 this proration unit will be roughly, on average, equal
19 across the 40s that make it up?

20 A. I do, yes.

21 Q. And will the completed interval of this well be
22 within the standard setbacks required by Division rules?

23 A. They will, yes.

24 Q. In your opinion, will the granting of EOG's
25 application be in the best interest of conservation, the

1 prevention of waste and the protection of correlative
2 rights?

3 A. Yes.

4 Q. Mr. Garrison, were Exhibits 6 through 10
5 prepared by you or under your supervision?

6 A. Yes, they were.

7 MR. RANKIN: Mr. Examiner, I would move
8 into evidence Exhibits 6 through 10.

9 EXAMINER EZEANYIM: Exhibits 6 through 10
10 will be admitted.

11 (EOG Resources, Inc. Exhibit Numbers 6
12 through 10 were offered and admitted into
13 evidence.)

14 MR. RANKIN: Mr. Examiner, I have no
15 further questions of the witness, and we'll pass the
16 witness.

17 EXAMINER EZEANYIM: Thank you very much.

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. Mr. Garrison, right?

21 A. Yes, sir.

22 Q. Go to Exhibit Number 8.

23 A. Exhibit Number 8.

24 Q. Yes, your thickness map.

25 A. The isopach thickness.

1 Q: Yeah. If you look at the well, I mean, there
2 is not really any difference in orientation. You could
3 go east-west because there is no pinch-out. There are
4 no pinch-outs.

5 A. That's right.

6 Q. So you can also go east-west?

7 A. We could go east-west.

8 Q. So why -- I'm not trying to put you on a
9 pedestal.

10 A. That's okay.

11 Q. I wanted to know why you wanted to go
12 north-south, which is also okay. East-west is also
13 okay. Why did you choose to go north-south?

14 A. We've taken FMI logs and data to suggest -- we
15 have that kind of proprietary in-house.

16 Q. Yeah.

17 A. That suggests that the stress field is
18 east-west and the proper orientation drilling
19 north-south.

20 Q. Okay. So you have that?

21 A. Yes, sir.

22 Q. Do you have a microseismic event [sic]?

23 A. We do not have microseismic in the 3rd Bone
24 Spring, but on -- if we flip to Exhibit -- if we flip to
25 Exhibit -- what is it -- 6, the wells that you see in

1 Sections 25 and 36, which are in the Leonard-Avalon
2 Shale, we do have microseismic on those, and the
3 microseismic suggests north-south orientation.

4 Q. Okay. I think that's -- so you have
5 microseismic in those wells to the west, off of Ophelia?
6 Is that what you calculate?

7 A. They are on the east, yeah.

8 Q. To the east?

9 A. Yes, sir.

10 Q. Okay. Good. Okay. That's all I have for you.
11 Thank you. You may step down.

12 MR. RANKIN: Mr. Examiner, we have
13 requested an expedited order, and if it would be helpful
14 to the Division, we'd be happy to provide a draft
15 proposed order to facilitate --

16 EXAMINER EZEANYIM: That would be
17 appropriate.

18 MR. RANKIN: Okay. Thank you.

19 EXAMINER EZEANYIM: What is happening here?
20 The well is not on production yet, right?

21 MR. RANKIN: Correct. It's been
22 completed -- I'm sorry. It's been cased and cemented,
23 but it's not been completed. I believe their completion
24 schedule is in the next few weeks.

25 EXAMINER EZEANYIM: Okay. It's scheduled

1 to be completed in the next few weeks?

2 MR. RANKIN: Correct.

3 EXAMINER EZEANYIM: And this part of the
4 rig are completed [sic] why?

5 MR. RANKIN: I believe it's because --
6 based on their completion schedule, it's based on the
7 availability of their scheduling.

8 EXAMINER EZEANYIM: Okay. Okay. We'll
9 grant it, then.

10 Anything further?

11 MR. RANKIN: Nothing further.

12 EXAMINER EZEANYIM: Okay. At this point
13 Case Number 15126 will be taken under advisement. Thank
14 you very much.

15 (Case Number 15126 concludes, 10:57 a.m.)

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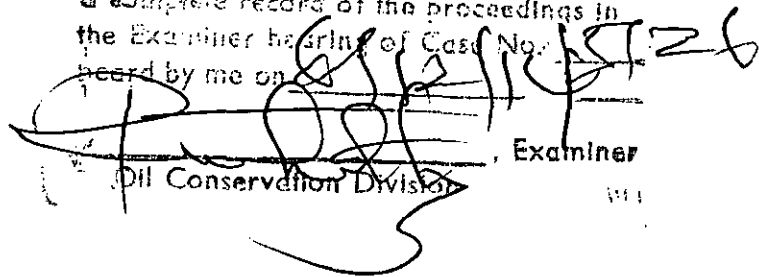
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15126
heard by me on 11/14/11


Examiner
Oil Conservation Division

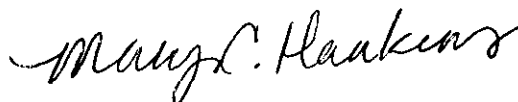
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2 COUNTY OF BERNALILLO

3 CERTIFICATE OF COURT REPORTER

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

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

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

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