	Page 1
1 2	STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT OIL CONSERVATION DIVISION
3 4	IN THE MATTER OF THE HEARING CALLED $\bigcirc \bigcirc \heartsuit Y$ BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:
5	APPLICATION OF OGX OPERATING, CASE NO. 15564 LLC FOR A NONSTANDARD SPACING AND PRORATION UNIT, COMPULSORY
7	POOLING, AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO.
8	
9	APPLICATION OF OGX OPERATING, CASE NO. 15565 LLC FOR A NONSTANDARD SPACING AND PRORATION UNIT, COMPULSORY
10	POOLING, AND AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY,
11	NEW MEXICO.
12	REPORTER'S TRANSCRIPT OF PROCEEDINGS
13	EXAMINER HEARING
14	October 27, 2016
15	Santa Fe, New Mexico
16	BEFORE: WILLIAM V. JONES, CHIEF EXAMINER DAVID K. BROOKS, LEGAL EXAMINER
17	
18	This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Eveningen and Devid K. Breeks, Legal Eveningen and
19	Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 27, 2016, at the New Mexico Energy,
20	Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall,
21	Room 102, Santa Fe, New Mexico.
22	REPORTED BY: Mary C. Hankins, CCR, RPR New Mexico CCR #20
23	Paul Baca Professional Court Reporters 500 4th Street, Northwest, Suite 105
24	Albuquerque, New Mexico 87102 (505) 843-9241
25	

Page 2 1 APPEARANCES 2 FOR APPLICANT OGX OPERATING, LLC: JAMES G. BRUCE, ESQ. 3 Post Office Box 1056 Santa Fe, New Mexico 87504 4 (505) 982-2043 jamesbruc@aol.com 5 6 INDEX 7 PAGE Case Numbers 15564 and 15565 Called 8 3 9 OGX Operating, LLC's Case-in-Chief: 10 Witnesses: 11 Garland H. Lang III: 12 Direct Examination by Mr. Bruce 4 Cross-Examination by Examiner Jones 13 13 William Hardie: 14 Direct Examination by Mr. Bruce 14 Cross-Examination by Examiner Brooks 21 15 Cross-Examination by Examiner Jones 22 16 25 Proceedings Conclude 17 26 Certificate of Court Reporter 18 19 EXHIBITS OFFERED AND ADMITTED 20 Case 15564 - OGX Operating, LLC Exhibit 13 Numbers 1 through 7 21 Case 15565 - OGX Operating, LLC Exhibit 13 22 Numbers 1 through 7 Case 15565 - OGX Operating, LLC Exhibit 23 Numbers 8 through 11 21 24 Case 15565 - OGX Operating, LLC Exhibit 25 Numbers 8 through 11 21

Page 3 1 (9:51 a.m.) 2 EXAMINER JONES: Call Case 15564, application of OGX Operating, LLC for a nonstandard 3 spacing and proration unit, compulsory pooling, and an 4 unorthodox gas well location, Eddy County, New Mexico. 5 6 Call for appearances. 7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe representing the Applicant, I have two 8 witnesses. 9 10 EXAMINER JONES: Any other appearances in 11 this case? Will the witnesses please stand? 12 Would the court reporter swear the 13 14 witnesses? 15 (Mr. Lang and Mr. Hardie sworn.) MR. BRUCE: Mr. Examiner, can we combine 16 17 this with the other OGX case? 18 EXAMINER JONES: Yes. Let's also go ahead and call Case Number 15565, application of OGX 19 20 Operating, LLC for a nonstandard spacing and proration unit, compulsory pooling, and an unorthodox gas well 21 location, Eddy County, New Mexico. 22 23 Call for appearances. 24 MR. BRUCE: Mr. Examiner, Jim Bruce of 25 Santa Fe again representing the Applicant.

Page 4 EXAMINER JONES: Any other appearances? 1 We'll combine Case 15564 and 15565 for 2 3 testimony. MR. BRUCE: And, Mr. Examiner, the two 4 wells are right next each other, so the geologic 5 testimony is common, and there is only one interest 6 7 owner being pooled --EXAMINER JONES: Okay. 8 9 MR. BRUCE: -- so I thought we'd do it this 10 way. I did hand you separate sets of land 11 12 exhibits for each case. And we'll run through the first 13 one, and the second one will be pretty short. 14 GARLAND H. LANG III, after having been previously sworn under oath, was 15 guestioned and testified as follows: 16 17 DIRECT EXAMINATION 18 BY MR. BRUCE: Would you please state your name for the 19 Q. 20 record? Garland H. Lang III. 21 Α. And where do you reside? 22 Q. In Midland, Texas. 23 Α. Who do you work for and in what capacity? 24 0. OGX Operating, LLC and also OGX Production, LP, 25 Α.

Page 5 as land manager. 1 2 0. Have you previously testified before the Division? 3 I have. 4 Α. 5 0. And were your credentials as an expert petroleum landman accepted as a matter of record? 6 7 Α. Yes. And are you familiar with the land matters 8 0. 9 involved in both applications? 10 Α. I am. MR. BRUCE: Mr. Examiner, I tender 11 Mr. Lang as an expert petroleum landman. 12 13 EXAMINER JONES: He is so qualified. (BY MR. BRUCE) Please look at Case 15564 14 0. exhibits. Can you identify Exhibit 1? Describe the 15 lands involved in this case and identify the well and 16 17 its location. Okay. The C-102 and also the land plat -- the 18 Α. land plat's colored in yellow, but it's the east half of 19 20 Section 28 and the east half of Section 33 of Lot -- of Township 26 South, Range 29 East. The well location for 21 22 the 33 #1H, the Littlefield, is -- the surface location is 2,130 from the east line of 33, and the bottom-hole 23 24 location -- and 330 from the south line, also. And then the bottom-hole location is 2,310 from the east line and 25

	Page 6
1	330 from the north line of Section 28. That's the
2	project area.
3	Q. And who do you seek to pool in this case?
4	A. Occidental Permian.
5	Q. Could you identify briefly discuss Exhibits
6	2 and 3 for the Examiners?
7	A. 2 and 3 are well proposals we sent to
8	Occidental, one back on July 13th. We proposed the well
9	at this location, and we had the acreage as being 464.75
10	acres in the project area. But after further surveying,
11	on August the 3rd, we sent another letter correcting
12	that to say the unit contains 463.96. So it changed up
13	their working interest slightly.
14	Q. Okay.
15	A. And with that letter, you know, we sent AFEs.
16	Q. And have you had any discussions with OXY
17	regarding the AFEs?
18	A. We have, and they said they wanted to see an
19	operating agreement. We sent them an operating
20	agreement about three weeks ago and haven't heard
21	anything from them.
22	Q. Did they indicate they may go nonconsent in the
23	first well?
24	A. Yes.
25	Q. In your opinion, has OGX made a good-faith

	Page 7
1	effort to obtain voluntary joinder of OXY in the well
2	unit?
3	A. I feel like we have.
4	Q. What is Exhibit 4?
5	A. I'm sorry?
6	Q. Exhibit 4.
7	A. Exhibit 4 is the estimated drilling and
8	completion costs for the #1H Littlefield 33.
9	Q. What is the estimated completed well costs?
10	A. Completed well cost estimate is \$6,336,980.
11	Q. Is that amount fair and reasonable and in line
12	with the cost of other Wolfcamp wells drilled to this
13	depth in this area of New Mexico?
14	A. It is.
15	Q. One thing I didn't ask you. What pool was this
16	placed in?
17	A. It's in the Brushy Draw; Wolfcamp Gas.
18	Q. Okay. And that's spaced on 320 acres, correct?
19	A. Yes.
20	Q. With 660-foot setbacks?
21	A. Yes.
22	Q. What overhead rates do you request?
23	A. 7,000 for drilling and 700 for monthly.
24	Q. And are those rates reasonable and in line with
25	the rates charged by other operators in this area?

		Page 8
1	Α.	They are.
2	Q.	Do you request the maximum cost plus 200
3	percent	risk charge be applied to OXY if it goes
4	nonconse	nt in this well?
5	Α.	We do.
6	Q.	And do you request that the overhead rates be
7	adjusted	periodically provided by the COPAS accounting
8	procedur	e?
9	Α.	We do.
10	Q.	And was OXY given written notice of this
11	applicat	ion?
12	Α.	Yes, they were.
13	Q.	Is that reflected in the Affidavit of Notice?
14	Α.	On Exhibit 5.
15	Q.	And does Exhibit 6 list the offset operators to
16	both wel	ls involved in these cases?
17	Α.	It does.
18	Q.	And was written notice given to the offsets
19	other th	an OGX?
20	Α.	Yes, it was, Exhibit 7.
21		MR. BRUCE: Mr. Examiner, even though I
22	used the	BLM's address for Khody Land & Mineral Company,
23	it came	back. So the case is going to have to be
24	continue	d for renotification purposes. At the end of
25	the hear	ing, I'll make a request for that.

Page 9 (BY MR. BRUCE) Were Exhibits 1 through 7 1 Ο. prepared by you or under your supervision or compiled 2 3 from company records? Α. They were. 4 Is the granting of this application in the 5 0. interest of conservation and the prevention of waste? 6 7 Α. Yes. 8 Q. Let's move on to the second well. Again, could you identify Exhibit 1 and discuss the well and its 9 footage location? 10 Okay. The producing area for this well, the 11 Α. Littlefield Fed Com #2H, is the west half of Section 28 12 13 and the west half of Section 33 of Township 26 South, Range 29 East. It comprises 463.13 acres, as you can 14 see on the C-102. 15 And what are the footages, surface and 16 0. bottom-hole locations? 17 Okay. The surface location is going to be on 18 Α. the same pad as the 33 #1, and so we're going to have to 19 drill -- which is really 2,210 from the east line of 20 21 Section 33. That's the surface-hole location. We'll be drilling to a first kick-off point approximately 810 22 feet southwest to a point 50 feet off the south line of 23 Section 33, and then drill north to the penetration 24 point which will be 330 from the south line of 33 and 25

	Page 10
1	2,310 from the west line of 33. And the bottom-hole
2	location will be 2,310 from the west line and 330 feet
3	from the north line of Section 28.
4	Q. And, again, this is a Wolfcamp well?
5	A. It is.
6	Q. And is the only party being pooled Occidental
7	Permian, L.P.?
8	A. It is.
9	Q. Could you identify and discuss briefly Exhibits
10	2 and 3 for the Examiners?
11	A. Exhibit 2 is a letter dated October 11th where
12	we proposed the well to OXY, showing the west half,
13	would be 236.66 acres in Section 28 and that their
14	interest in the well would be 51.1 percent. And we
15	attached an AFE with that.
16	Q. And what is Exhibit 3?
17	A. Exhibit 3 is a letter dated October 18th where
18	we decided to move our original lateral from 2,411 from
19	the west line to 2,310 from the west line of Section 28
20	and 33.
21	Q. Okay.
22	MR. BRUCE: And, Mr. Examiner, this will
23	have to be continued again because of my original
24	application, because of the original footages in it.
25	EXAMINER JONES: Okay. Would that be

Page 11
re-advertised?
MR. BRUCE: It'll be re-advertised.
EXAMINER JONES: Okay.
Q. (BY MR. BRUCE) And have you had any contact
with OXY regarding the 2H well?
A. Yes, I have. I sent them a joint operating
agreement on that area, the producing area there, and at
the same time, I sent the #1 and haven't any response.
Q. Okay. In your opinion, have you made a
good-faith effort to obtain voluntary joinder of OXY in
the 2H well?
A. I have.
Q. And what is Exhibit 4?
A. Exhibit 4 is the Authorization for Expenditure
for the Littlefield 33 Fed Com #2H. It's got a
completed well cost of 6,429,052.
Q. And, again, is that a fair and reasonable cost?
A. It is.
Q. Is it in line with other Wolfcamp wells drilled
in this area?
A. It is.
Q. And do you request the maximum cost plus 200
percent risk charge to OXY if it goes nonconsent in the
well?
A. I do.

	Page 12
1	Q. What overhead rates do you request for this
2	well?
3	A. 7,000 drilling and 700 producing.
4	Q. And, again, those are fair and reasonable and
5	similar to rates used by other operators?
6	A. Yes, they are.
7	Q. Are those the rates proposed in the JOA with
8	OXY?
9	A. Yes.
10	Q. And, again, was OXY given written notice of
11	this application?
12	A. Yes. Exhibit 5 is the Affidavit of Notice.
13	Q. And are Exhibits are Exhibits 6 and 7
14	identical to in the prior case?
15	A. Yes, they are.
16	Q. In your opinion, is the granting of this
17	application in the interest of conservation and the
18	prevention of waste?
19	A. Yes.
20	Q. And were Exhibits 1 through 7 in this case
21	prepared by you or under your supervision or compiled
22	from company business records?
23	A. They were.
24	MR. BRUCE: Mr. Examiner, I would move
25	admission of Exhibits 1 through 7 in each case.

Page 13 I have no further questions of the witness. 1 2 EXAMINER JONES: Exhibits 1 through 7 in 3 both cases, 15564 and 15565, are admitted. 4 (OGX Operating, LLC Exhibit Numbers 1 5 through 7 in Case 15564 and Case 15565 are offered and admitted into evidence.) 6 7 EXAMINER BROOKS: No questions. 8 CROSS-EXAMINATION 9 BY EXAMINER JONES: So you did talk to OXY? 10 0. We've met with them, talked to them. At first 11 Α. they wanted to go on the #1, the first well, and then 12 13 for some reason they had a change of mind, and they 14 said, We think we're going to go nonconsent. And I don't know what caused it. They didn't tell us why. 15 16 0. Okav. But the -- the other people in this well are already signed on; is that correct? 17 Well, yes. There is a company called 55 18 Α. Services, which is George Mitchell. He has a quarter of 19 20 the interest that is under a JOA currently. We bought 21 property from him about three-and-a-half years ago --22 Q. Okay. 23 -- the leases that we're contributing to, these Α. 24 two producing units. 25 Q. Okay.

	Page 14
1	A. So he's fully aware of what we're doing.
2	Q. And he's okay with the change of location for
3	the well?
4	A. Yeah. Yeah.
5	Q. Thanks. Thanks very much.
6	WILLIAM HARDIE,
7	after having been previously sworn under oath, was
8	questioned and testified as follows:
9	DIRECT EXAMINATION
10	BY MR. BRUCE:
11	Q. Would you state your name and city of residence
12	for the Examiners?
13	A. My name is William Hardie. I live in Midland,
14	Texas.
15	Q. Who do you work for and in what capacity?
16	A. I work for OGX Operating as their exploration
17	manager.
18	Q. By trade, are you a geologist?
19	A. I am.
20	Q. Have you previously testified before the
21	Division?
22	A. I have.
23	Q. And were your credentials as an expert
24	petroleum geologist accepted as a matter of record?
25	A. Yes.

Page 15 1 And are you familiar with the geology involved Q. 2 in both of these applications? 3 Α. Yes, I am. MR. BRUCE: Mr. Examiner, I tender 4 Mr. Hardie as an expert petroleum geologist. 5 6 EXAMINER JONES: He is so qualified. 7 (BY MR. BRUCE) Mr. Hardie, I have combined your 0. first three or four pages together and marked it as 8 9 Exhibit 8. Would you run through those and discuss the 10 contents for the Examiner? The first part of Exhibit 8 is just an overview 11 Α. 12 of the horizontal activity in the immediate area. So on 13 each horizontal well, I've labeled the operator, the TVD of the lateral and the formation that it's been drilled 14 15 This is at the Texas-New Mexico state line. It in. 16 runs through the middle of the map. Also, I've 17 highlighted in yellow the acreage that OGX Operating has in this area. I've also shown the proposed wells and 18 19 their surface locations in Section 33, right on the 20 state line, and their north-south orientation, the 21 Littlefield 33Fed Com #1 and 2. 22 The next map is a structure map on top of the Wolfcamp, and I've colored-shaded the structural 23 24 This is the 50-foot contour interval. The contours. highest part of the map is shown in green on the 25

left-hand side, and then you get progressively deeper as 1 2 you move to the east with the purple colors. The rate 3 of dip is about 100 feet per mile, which is pretty standard for regional dip in this part of the Delaware 4 5 There are no prominent structures or anything Basin. 6 that would affect the continuity of the formation in 7 The target for our horizontal wells is a TVD this area. 8 of 10,000 feet. That would be in the upper part of the 9 Wolfcamp. We call it the Wolfcamp A zone. And if you'll look on the map, I've also 10 11 shown the line of section for the next part of the exhibit, cross section A, A prime that runs through or 12 13 as close as I could get to the proposed wells. The cross section -- it's a three-well 14 15 cross section, and it's got color codes on it. The

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16 brown colors indicate organic-rich shales, which is usually our target for this play. The blue colors are 17 18 limestone, usually debris flows. And they're not currently a target for horizontal drilling, although 19 20 they were in the past a target for vertical drilling. 21 And this is -- this is very close to a Wolfcamp field 22 that was developed in the '70s and '80s from that 23 deepest carbonate interval that you see at the bottom of 24 the cross section, the Dam Sight Field [phonetic], 25 mostly in Texas.

This is designed just to demonstrate the continuity of the zones within the upper part of the Wolfcamp. Each of these subzones in the Wolfcamp that I've labeled on this cross section are prospective for horizontal drilling.

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Currently, the best producing of these 6 7 zones has been shown by other operators and ourselves to be that Wolfcamp A zone, and we anticipate that that's 8 where we will be drilling the well. But we are going to 9 run a pilot well and log that pilot and examine all of 10 the zones particularly for future reference. 11 When we 12 decide to develop some of the other zones, we'll know 13 what those rock properties are like.

14 So the next exhibit is an example of what the maximum principal stress is in this area. 15 This 16 comes from a well that OGX drilled about six miles south the Littlefield area in Texas. And we ran a dipole 17 sonic across the Wolfcamp and other intervals and 18 indicated that the maximum principal stress is North 75 19 20 East, and, therefore, drilling north-south would be the optimal direction to get the best angle on those 21 fractures that would be generated when we 22 23 fracture-stimulated the well. 24 Why don't you skip over the next couple of 0. exhibits and go to Exhibit 11, Mr. Hardie, and identify 25

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1 that for the Examiners.

A. Exhibit 11, which is -- can you hold it up?
3 Q. (Indicating.)

A. Okay. This is an example from that same well I mentioned that we drilled about six miles south of this area, what we do to evaluate the formation in order to pick the best interval for drilling horizontally. It's a product of Halliburton. They call it their Shale Log Evaluation. We run a complete, full suite of logs in the pilot hole, and they do this evaluation.

11 The main things that we look for as a 12 result of this evaluation are brittleness, organic 13 content, and, of course, the mudloggers record mud-log 14 gas. And that would be another indication that it would 15 be a good target zone.

16 In that well, that Wolfcamp A zone, was 17 deemed to be the most prospective of the targets available, and we did drill in that zone. We expect the 18 19 same A zone to also be the most prospective in this 20 well, but we're going to look at it and make that 21 determination after we drill the pilot well. We'll also be running dipole sonic and determine our maximum 22 23 principal stress. I do not anticipate that will change 24 across that short of a distance. It's been pretty consistent across this part of the Basin. 25

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Page 19 Do you anticipate that each quarter section in 1 Q. 2 the well unit will contribute more or less equally to 3 the production from the well? 4 Α. Yes, I do. 5 0. And you're also requesting an unorthodox location. What is the reason for that? 6 7 Α. This is on the banks of the Pecos River. And 8 the BLM, we worked with them to pick a location that 9 would be appropriate for their concerns and also allow 10 us to put multiple wells on one pad and drill up our 11 acreage in the area. 12 0. Would it also extend the productive lengths of 13 the wellbores? 14 Α. Yes. The wellbores are going to be 6,700 feet 15 long in the lateral portion. And so we're actually drilling a mile and a half, and we expect that to create 16 17 much better production than you would get in just a mile-long lateral and also help the economics of the 18 project. 19 20 Ο. And the Wolfcamp is a -- is a Wolf permeability reservoir, correct? 21 It is. 22 Α. 23 And with that, do you expect any adverse effect Q. 24 on offsets due to the unorthodox locations? 25 Α. I do not expect any adverse.

Q. As we said, is there the chance for infill wells in this area?

Page 20

A. Yes, there is.

3

And just briefly, what are Exhibits 9 and 10? 0. 4 5 9 and 10 are wellbore diagrams by our drilling Α. engineer under my direction, and it simply points out 6 7 the different casing intervals that we will be running in the well surface, intermediate, and then a long 8 string from which we will drill out and drill the 9 And then we will tie that lateral back into 10 lateral. the long string. Also, it talks about mud weights and 11 mud systems that we would use as we're drilling the 12 well. 13

So the pilot well would be drilled 14 initially to a depth of approximately 10,500 feet, maybe 15a little deeper, and then we would plug back the 16 Wolfcamp portion of that pilot well, setting plugs as 17 per the State of New Mexico requirements, and then kick 18 off the lateral from that and drill horizontally for 19 6,700 feet, at about a TVD of 10,000 feet. 20 Were Exhibits 8 through 11 either prepared by 21 0. you or under your supervision? 22

A. They were.

23

Q. And in your opinion, is the granting of both applications in the interest of conservation and the

Page 21 prevention of waste? 1 2 Α. Yes. 3 MR. BRUCE: Mr. Examiner, I move the admission of Exhibits 8 through 11. 4 EXAMINER JONES: Exhibits 8 through 11 are 5 admitted. 6 7 (OGX Operating, LLC Exhibit Numbers 8 through 11 are offered and admitted into 8 9 evidence.) MR. BRUCE: And I have no other questions 10 of the witness. 11 12 CROSS-EXAMINATION 13 BY EXAMINER BROOKS: Is this expected to be a gas producer? 0. 14 The GORs in this area are highly variable, and 15 Α. 16 I think it has more to do with the completion techniques than anything else. In the regional sense, the Wolfcamp 17 has higher GOR as you move to the west and the elevation 18 of the formation gets higher. Lower GORs like, for 19 example, in Lea County are more prominent. We're kind 20 21 of on the high end of the map on that GOR spectrum at this location. 22 So it could be either? 23 0. 24 It could be either. We obviously are going to Α. do everything we can to keep that GOR as low as possible 25

Page 22 and preserve that reservoir energy. 1 Q. 2 Correct. And we've been successful in the past compared 3 Α. to other operators mainly with our frac technique. 4 5 Q. Thank you. Uh-huh. 6 Α. 7 CROSS-EXAMINATION 8 BY EXAMINER JONES: Do you run a chemical tracer on your frac jobs? 9 0. We have not been doing that just because the 10 Α. 11 various stages -- I think in this particular case we'll be looking at about 30 stages, so there are a lot of 12 them to do. And they typically treat about the same 13 each time. It's been a formation that's been pretty 14 15 easy to frac compared to others in the Basin. Okay. Are you able to keep your lateral length 16 0. 17 where you want it as --That should be easy as well. The formation is 18 Α. 19 uniform across this area. The dip is going to be to the east, and we're drilling north-south. So it's going to 20 be a true 90-degree lateral, and the target zone is 21 almost 100 feet thick. So that's easy to stand. 22 Okay. You still always need your 12 degrees 23 Q. barrier or so to get your liner in or your --24 25 Α. Yes, about a 500-foot radius on the lateral.

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1	Q. Okay. I just heard someone talking that they
2	might be working on reducing that in places, but you've
3	still got to get the pipe around the corner?
4	A. That's true.
5	Q. Any logging while drilling?
6	A. Just gamma ray while drilling to make sure
7	we're in zone, to make sure it looks like we expect.
8	Q. Okay. So the pilot hole that dipole sonic,
9	is that is that now called an array sonic, or did
10	they change the name?
11	A. Yeah. I think that's what they
12	Halliburton's name is on the sonic. What do they call
13	it? Yeah. It's not listed on this log. But I think
14	Schlumberger's name for it is an array sonic.
15	Q. Okay. So it's oriented all the time?
16	A. It is oriented and and examines the sonic
17	velocities in multiple directions.
18	Q. Yeah. And they will send that to you after
19	it's processed or
20	A. Right. It takes about a day.
21	Q. Okay. Okay. Really appreciate you showing
22	this exhibit. And I guess you kind of needed that stuff
23	for optimizing where your well's at and optimizing what
24	your recovery is going to be.
25	A. We typically run a pilot well on each section

that we plan to develop on the first well, and that
 would be this one.

Q. Okay. And are you expecting any surprises, I mean, as far as the -- are you going to run this up into the Bone Spring, too, and go ahead --

Yes, we will, so we can evaluate those 6 Α. 7 formations as well because they are prospective. As you 8 can see on the first map I showed you, there are a lot 9 of different target zones in this area. The Wolfcamp 10 is, right now, the favorite one because it is commercial 11 at \$50 oil, and it's the deepest one. So a lot of times it's better to start deep and work your way up shallow. 12

Q. These faults that may have been Pa- -- I mean deep Paleozoic faults, they're not -- do they not extend up into the Permian age or the pre-Pennsylvanian?

A. They do not. This is regional dip in this area, and I know of no deep-seated faults in this immediate area. There is a structure well to the south of us, but not near us.

20 Q. Okay. Well, good luck in your wells.

21 A. Thank you.

22 Q. Thanks for coming up here.

23 MR. BRUCE: Mr. Examiner, because of the 24 timing involved, I think we have to continue these cases 25 for notice purposes to December 1.

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Page 25 EXAMINER JONES: Okay. To be re-advertised? MR. BRUCE: The #2H has to be re-advertised, and I have to give notice. And then I have to send notice to a couple of the offsets insofar as unorthodox location goes. Then to the #1H, the application's correct. I just have to try to serve one offset. EXAMINER JONES: Okay. That sounds good. So Cases 15564 and 15565 have been heard, but they will be continued to December the 1st. Thanks, Mr. Hardie. (Case Numbers 15564 and 15565 conclude.)

	Page 26
1	STATE OF NEW MEXICO
2	COUNTY OF BERNALILLO
3	
4	CERTIFICATE OF COURT REPORTER
5	I, MARY C. HANKINS, Certified Court
6	Reporter, New Mexico Certified Court Reporter No. 20,
7	and Registered Professional Reporter, do hereby certify
8	that I reported the foregoing proceedings in
9	stenographic shorthand and that the foregoing pages are
10	a true and correct transcript of those proceedings that
11	were reduced to printed form by me to the best of my
12	ability.
13	I FURTHER CERTIFY that the Reporter's
14	Record of the proceedings truly and accurately reflects
15	the exhibits, if any, offered by the respective parties.
16	I FURTHER CERTIFY that I am neither
17	employed by nor related to any of the parties or
18	attorneys in this case and that I have no interest in
19	the final disposition of this case.
20	de dilita
21	May C. Henrin
22	MARY C. HÀNKINS, CCR, RPR Certified Court Reporter
23	New Mexico CCR No. 20 Date of CCR Expiration: 12/31/2016
24	Paul Baca Professional Court Reporters
25	