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1	STATE OF NEW MEXICO ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
2	OIL CONSERVATION DIVISION
3	IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:
4	THE PURPOSE OF CONSIDERING:
5	APPLICATION OF BURNETT OIL COMPANY, CASE NO. 15566 INC. FOR A NONSTANDARD OIL SPACING
6	AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.
7	APPLICATION OF BURNETT OIL COMPANY, CASE NO. 15567
8	INC. FOR A NONSTANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY
9	POOLING, EDDY COUNTY, NEW MEXICO.
10	REPORTER'S TRANSCRIPT OF PROCEEDINGS
11	EXAMINER HEARING
12	October 27, 2016
13	Santa Fe, New Mexico
14	
15	BEFORE: WILLIAM V. JONES, CHIEF EXAMINER DAVID K. BROOKS, LEGAL EXAMINER
16	
17	This matter came on for hearing before the
18	New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 27, 2016, at the New Mexico Energy,
19	Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall,
20	Room 102, Santa Fe, New Mexico.
21	
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	

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1	APPEARANCES	_
2	FOR APPLICANT BURNETT OIL COMPANY, INC.:	
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4	Post Office Box 1056 Santa Fe, New Mexico 87504 (505) 982-2043	
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6		
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## PAUL BACA PROFESSIONAL COURT REPORTERS 500 FOURTH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

(Mr. Means and Mr. Zelaya sworn.)

## PAUL BACA PROFESSIONAL COURT REPORTERS 500 FOURTH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

- 1 Q. (BY MR. BRUCE) Mr. Means, let's first run
- 2 through Case 15566.
- MR. BRUCE: And, Mr. Examiner, both exhibit
- 4 packages, one for each case, other than the land plat,
- 5 they're pretty similar. So --
- 6 Q. (BY MR. BRUCE) What is Exhibit 1, Mr. Means?
- 7 A. Exhibit 1 is Form C-102 for the Nosler 12 Fed
- 8 LJ 7H well.
- 9 Q. And what acreage is involved in this well unit?
- 10 A. It's going to be the north half-southwest
- 11 quarter and the northwest quarter-southeast quarter of
- 12 Section 12.
- 13 O. So it will be a horizontal well unit?
- 14 A. Correct.
- 15 Q. And what formation is being tested by the 7H
- 16 well?
- 17 A. Glorieta-Yeso.
- 18 Q. And does the C-102 show the first take point --
- 19 the surface location and the first take point and the
- 20 bottom-hole final take point of the well?
- 21 A. It does. I can call those if you need me to.
- 22 Q. It's in writing.
- Who do you seek to force pool in both
- 24 cases?
- 25 A. In both cases, Ard Oil and Ard Energy Group,

- 1 two separate entities, but kind of a collective
- 2 interest.
- 3 Q. Within the same family?
- A. Within the same family, yes, sir.
- 5 Q. And could you identify Exhibits 2 and 3 and
- 6 briefly discuss them for the Examiner?
- 7 A. Exhibit 2 is our well proposal to Ard Oil and
- 8 Ard Energy and the entity names are on the letterhead.
- 9 EXAMINER JONES: Thanks.
- 10 Q. (BY MR. BRUCE) This covers both wells; does it
- 11 not?
- 12 A. Correct. You'll note the proposal -- we've
- 13 proposed both of the wells together. And the reason is
- 14 efficiency and your time, Mr. Bruce's time, my time, and
- 15 for continuous drilling, it gives us a year, 180-day
- 16 clock and a year of drilling inventory, if you will.
- 17 This was just a proposal letter we sent to Mr. -- well,
- 18 to Ard, Ard Oil and Ard Energy proposing both the 7 and
- 19 8H well. Included in the proposal was an AFE for the
- 20 well, location plat, and for the 7H, directional
- 21 drilling survey, and a copy of our operating -- existing
- 22 operating agreement.
- Q. And what is Exhibit 3?
- 24 A. Exhibit 3 is a separate letter -- separate
- 25 letter of even [sic] date to Ard Oil and Ard Energy

- 1 wherein we made three separate proposals for them to --
- 2 you know, offers for them to join or commit their
- 3 interest to both wells. One is we sent the operating
- 4 agreement with the letter, but then, again, an extra set
- 5 of signature pages to join the existing operating
- 6 agreement for the well, made a term assignment offer,
- 7 very reasonable terms, and then the third offer to join
- 8 a separate operating agreement -- just enter an
- 9 operating agreement, and we would do an overriding
- 10 royalty interest. We'd go out on an override in lieu of
- 11 the nonconsent penalty.
- 12 Q. And you have dealt quite often with the Ards in
- 13 the past regarding other wells? Burnett Oil has drilled
- 14 in sections -- in adjoining sections and in this section
- 15 also; is that correct?
- 16 A. Correct. Yes, sir.
- 17 Q. Did the Ards ever respond to your letters?
- 18 A. No, sir.
- 19 Q. And is that pretty common? Has it happened in
- 20 the past?
- 21 A. It's very common. Yes, sir.
- Q. What interest, collectively, do the Ards own in
- 23 the 7H well?
- 24 A. In the 7H well, it's 10.83438 percent.
- 25 Q. And what is it in the 8H well?

- 1 A. In the 8H well, it's two-thirds of that number.
- 2 And the reason being, the southwest-southwest quarter of
- 3 Section 12 was earned by Concho pursuant to a term
- 4 assignment they had with the Ard Group that has since
- 5 expired. So Concho will be in that well for, let's say,
- 6 40 of 120 acres or a third of the 10 percent Ard
- 7 interest, and Ard will have the balance.
- 8 I will just note, in the offer letter,
- 9 Schedule 1 has the Ard interest that was separated out
- 10 by entity and then obviously the collective interests.
- 11 Q. You are not seeking to force pool COG in the 8H
- 12 case?
- 13 A. No, sir. They're subject to an operating
- 14 agreement. And in the 8H case, we'll just propose the
- well pursuant to the operating agreement, and they'll
- 16 participate or not.
- 17 Q. In your opinion, have you made a good-faith
- 18 effort to obtain the voluntary joinder of the Ard
- 19 entities in both cases?
- 20 A. Yes, sir.
- 21 O. What is Exhibit 4?
- 22 A. Exhibit 4 is a copy of the AFE for the 7H well.
- Q. And what are the completed well costs?
- A. The completed well costs, 2.565 million.
- 25 O. And is that cost fair and in line with the cost

- of other wells drilled to this depth in this area of New
- 2 Mexico?
- 3 A. Yes, sir.
- 4 Q. And do you request the maximum cost plus 100
- 5 percent risk charge in the event Ard entities do not
- 6 voluntarily join in the wells?
- 7 A. We do.
- 8 Q. What overhead rates do you request?
- 9 A. Our existing operating has 6,000 a month
- 10 drilling and 600 a month producing, and that's our
- 11 request.
- 12 Q. And are those the rates in your JOA?
- 13 A. They are.
- 14 Q. And in your opinion, are those rates fair and
- 15 reasonable?
- 16 A. Yes, sir.
- 17 Q. Are they similar to the rates charged by other
- 18 operators in this area for Yeso wells?
- 19 A. Yes, sir.
- MR. BRUCE: And, Mr. Examiner, Exhibit 5 is
- 21 simply my Affidavit of Notice to the Ard entities. They
- 22 did receive actual notice.
- Q. (BY MR. BRUCE) And, Mr. Means, are the only
- 24 offsetting operators in this area COG, Apache and
- 25 Chevron?

- 1 A. That's correct.
- 2 MR. BRUCE: And Exhibit 6, Mr. Examiner, is
- 3 my Affidavit of Notice to the offsets, and they did all
- 4 receive actual notice.
- 5 Q. (BY MR. BRUCE) Let's move on to the 8H case
- 6 very briefly, Mr. Means. Could you identify Exhibit 1
- 7 and describe the well unit in this case?
- 8 A. So Exhibit 1 is the case of the 8H well. This
- 9 will be the next 120-acre unit south, if will you. So
- 10 the project area, proration unit, will be the south
- 11 half-southwest quarter and the southwest
- 12 quarter-southeast quarter of Section 12.
- 13 Q. Again, a 120-acre well?
- 14 A. A 120-acre unit, yes, sir. And, again, for the
- 15 Glorieta-Yeso.
- 16 Q. And your proposed surface location is in the
- 17 adjoining Section 11, correct?
- 18 A. That is correct.
- 19 Q. If that one can't be obtained, do you plan on
- 20 having a surface location in the southwest
- 21 quarter-southwest quarter of Section 12?
- 22 A. Yes, sir.
- MR. BRUCE: Mr. Examiner, we'd like that
- 24 reflected in the order in this case, in case we don't
- 25 get their preferred location.

MR. BRUCE: Just that one.

- 1 THE WITNESS: And the 7H does not have a
- 2 surface location because of the dunes. We prefer the
- 3 surface location in the adjoining section, 11, to
- 4 maximize lateral length. So the 8H should work out.
- 5 Then we'll have the surface location in the adjoining
- 6 Section 11 to maximize the productive lateral for that
- 7 well.
- 8 EXAMINER JONES: If you don't get it, you
- 9 want the surface location southwest-southwest of 12?
- 10 THE WITNESS: Of 12, correct.
- 11 Q. (BY MR. BRUCE) Mr. Means, Exhibits 2 and 3, are
- 12 those the same letters submitted in the first case for
- 13 the 7H well?
- 14 A. Yes, sir.
- 15 Q. And what is Exhibit 4?
- A. Exhibit 4 is the AFE for the 8H well reflecting
- 17 effectively the same cost, 2.575, completed well, a
- 18 little over a million dollars dry-hole cost.
- 19 Q. And, again, is this cost fair and reasonable
- 20 and in line with the cost of the other Yeso --
- 21 horizontal Yeso wells drilled in this area?
- 22 A. Yes, sir.
- 23 Q. And what overhead rates do you propose for this
- 24 well?
- 25 A. Same overhead rates, 6,000 a month drilling and

- 1 600 a month producing.
- Q. And are those rates fair and reasonable?
- 3 A. Yes, sir.
- 4 Q. Do you request that the rates be adjusted as
- 5 provided in the COPAS accounting procedure?
- 6 A. Yes, sir, every April.
- 7 MR. BRUCE: Mr. Examiner, Exhibit 5 is my
- 8 Affidavit of Notice to the Ard entities in the 8H well
- 9 case, and then Exhibit 6 is my Affidavit of Notice to
- 10 the offsets in the 8H case.
- 11 Q. (BY MR. BRUCE) Again, the same -- they're the
- 12 same offsets, correct, Mr. Means?
- 13 A. Correct. Yes, sir.
- Q. Were Exhibits 1 through 6 in each case prepared
- 15 by you or under your supervision or compiled from
- 16 company business records?
- 17 A. Yes, sir.
- 18 Q. And in your opinion, is the granting of both
- 19 applications in the interest of conservation and the
- 20 prevention of waste?
- 21 A. Yes, sir.
- MR. BRUCE: Mr. Examiner, I'd move the
- 23 admission of Exhibits 1 through 6 in both cases.
- 24 EXAMINER JONES: Exhibits 1 through 6 in
- 25 Case Number 15566 and 15567 are admitted.

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1	(Burnett Oil Co., Inc. Exhibit Numbers 1
2	through 6 are offered and admitted into
3	evidence.)
4	MR. BRUCE: I have no further questions of
5	the witness.
6	EXAMINER JONES: Okay. So Ard is not
7	appearing here under they've not made an appearance
8	in this case; is that correct?
9	MR. BRUCE: No, although Mr. Padilla is
10	lurking behind my back (laughter).
11	EXAMINER JONES: I saw that (laughter).
12	Mr. Padilla okay.
13	MR. PADILLA: I'm not entering an
14	appearance.
15	EXAMINER BROOKS: I have no questions of
16	the witness.
17	CROSS-EXAMINATION
18	BY EXAMINER JONES:
19	Q. So everybody was noticed actual notice?
20	Even the surrounding parties lurking parties were
21	noticed?
22	MR. BRUCE: Yeah. Yup. No continuances
23	here.
24	EXAMINER JONES: No continuances?
25	EXAMINER BROOKS: No parties to be pooled
ľ	

- 1 except the Ard interest?
- 2 MR. BRUCE: That's correct.
- 3 THE WITNESS: That's correct.
- 4 EXAMINER BROOKS: In both cases?
- 5 THE WITNESS: Correct.
- 6 Q. (BY EXAMINER JONES) And you're assuming COG is
- 7 going to sign according to the JOA; is that correct?
- 8 A. Yes, sir. Yeah. They've indicated -- so we
- 9 drilled, you'll recall. About a year ago, we pulled the
- 10 4 and the 6H, the two wells north. They actually didn't
- 11 participate for their interest in the 4H well, but have
- 12 indicated -- those were actually really good wells. And
- 13 they've indicated they're going to participate in the
- 14 8H, and we're working with them on the surface location
- 15 currently for the 8H well. And we seem -- we're going
- 16 to swap locations, with them in 12 and us in 11. And I
- 17 think we should get that squared away here in the
- 18 next -- not too long.
- 19 Q. How did Burnett come into interest here?
- 20 A. These were leases that were acquired by,
- 21 actually, a predecessor company, R. F. Winfer
- 22 [phonetic]. A guy named Robert Winfer acquired these
- 23 back in the 1950s, and Mr. Winfer was married to a
- 24 Burnett. So that Winfer interest kind of got merged
- 25 into Burnett Oil Company way back when.

- 1 Q. Okay. And since -- since COG's involved at
- 2 least in one well, not the other well?
- A. They don't have an interest in the other well,
- 4 just because they didn't earn anything under the term
- 5 assignment for that 120 acres.
- 6 Q. Okay. And I should ask -- I hate to ask, but I
- 7 should ask. Any vertical division of interests?
- 8 A. No, sir. Not within the -- not within the
- 9 Glorieta-Yeso, no.
- 10 Q. Okay. Thanks.
- 11 A. I say Glorieta-Yeso. Yeah, Yeso. Yeah.
- MR. BRUCE: Just one set of geologic
- 13 exhibits for both cases, Mr. Examiner.
- 14 RAFAEL ZELAYA,
- 15 after having been previously sworn under oath, was
- 16 questioned and testified as follows:
- 17 DIRECT EXAMINATION
- 18 BY MR. BRUCE:
- 19 Q. Would you please state your name for the
- 20 record?
- 21 A. Rafael Zelaya.
- Q. Where do you reside?
- A. Fort Worth, Texas.
- Q. Who do you work for and in what capacity?
- A. Burnett Oil Company, Inc., and I'm a geological

- 1 manager.
- 2 Q. Have you previously testified before the
- 3 Division?
- 4 A. Yes, sir.
- 5 O. And were your credentials as an expert
- 6 petroleum geologist accepted as a matter of record?
- 7 A. Yes, sir.
- 8 Q. And are you familiar with the geology involved
- 9 in both applications?
- 10 A. Yes.
- 11 MR. BRUCE: Mr. Examiner, I tender
- 12 Mr. Zelaya as an expert petroleum geologist.
- 13 EXAMINER JONES: He is so qualified.
- Q. (BY MR. BRUCE) Mr. Zelaya, let's go through
- 15 these exhibits. Some of them have the well unit for
- 16 only the 7H well, the northern well of the two wells
- 17 that are proposed, but is the geology the same for both
- 18 wells?
- 19 A. Yes, sir.
- 20 Q. And before we hit up the geology, could you go
- 21 through Exhibits 7 and 8 briefly and discuss what is
- 22 shown in these exhibits?
- 23 A. Yes, sir. Exhibit 7 is just the base map
- 24 showing the unit for the 7H. Although the area is
- 25 relatively flat, there are -- there is a draw that comes

- 1 through the eastern portion of Section 12 and also some
- 2 sand dunes, and that is represented in Exhibit 8.
- 3 O. And there are also some wildlife areas or
- 4 habitats in this area; are there not?
- 5 A. That is correct, yes.
- Q. And as a result, it's not always easy to get
- 7 well locations in this immediate area?
- 8 A. No, sir. It's pretty tricky.
- 9 O. Move on to Exhibit 9. What does that show?
- 10 A. Exhibit 9 is a structure map on the top of the
- 11 Paddock, which is on the top of the Yeso. And as you
- 12 can see, it's relatively flat with a slight dip to the
- 13 southeast.
- Q. And what is Exhibit 10?
- 15 A. Exhibit 10 is a porosity map of the Paddock
- 16 section, greater than 3 percent porosity, and you can
- 17 see from west to east, the porosity thickness ranges
- 18 from 250 feet to about 150 feet.
- 19 Q. Is the Yeso continuous across each of the well
- 20 units?
- 21 A. Yes, sir.
- 22 Q. And from a geologic standpoint, would you
- 23 expect each quarter-quarter section in the well units to
- 24 contribute more or less equally to production?
- 25 A. Yes, sir.

- 1 Q. Are there any faults that would affect the
- 2 drilling of a horizontal well in this area?
- 3 A. No, sir. We have not identified any faults.
- Q. Do you prefer stand-up or lay-down well units
- 5 in this area?
- A. We prefer lay-down units, but in areas where we
- 7 pretty much have to drill a stand-up unit, they're still
- 8 productive. And the offset operator, COG, has drilled
- 9 stand-up units as well.
- 10 Q. What is Exhibit 11?
- 11 A. Exhibit 11 is the directional plan that has
- 12 been filed for the 7H, and it shows that the first and
- 13 last take points will be orthodox locations.
- Q. Since the location of the 8H well is not quite
- 15 certain as of yet, there is no directional drilling plan
- 16 for the 8H well; is that correct?
- 17 A. Not currently. We're working on getting that
- 18 put together. Yes, sir.
- 19 Q. Were Exhibits 7 through 11 prepared by you or
- 20 under your supervision or compiled from company business
- 21 records?
- 22 A. Yes, sir.
- Q. And in your opinion, is the granting of these
- 24 applications in the interest of conservation and the
- 25 prevention of waste?

- 1 A. Yes.
- MR. BRUCE: Mr. Examiner, I move the
- 3 admission of Exhibits 7 through 11.
- 4 EXAMINER JONES: Exhibits 7 through 11 are
- 5 admitted in both cases.
- 6 (Burnett Oil Co., Inc. Exhibit Number 7
- 7 through 11 are offered and admitted into
- 8 evidence.)
- 9 MR. BRUCE: And I have no further questions
- 10 for the witness.
- 11 EXAMINER BROOKS: No questions.
- 12 CROSS-EXAMINATION
- 13 BY EXAMINER JONES:
- Q. On Exhibits 9 and 10, Section 12, is that a
- 15 restricted section?
- 16 A. It is not. So the eastern portion is
- 17 restricted because of the COG. That's just our unit
- 18 outline.
- 19 Q. Okay. The well that's shown in red, is that --
- 20 that's the 7H?
- 21 A. Yes, sir. That is the 7H.
- 22 Q. And the 8H would be?
- 23 A. Just south of that, three sections to the
- 24 south.
- Q. Okay. So are we talking Paddock here?

- 1 A. Yes, sir. It's the lower portion of the
- 2 Paddock section.
- 3 Q. How close to the Blinebry is it?
- A. We're about, roughly, 150 feet.
- 5 Q. So you mapped 3 percent. Is that -- is that
- 6 density? Porosity?
- 7 A. It's a combination of both. You know, some of
- 8 these are older logs, but where we have cross-block
- 9 porosity, we like to use that.
- 10 Q. Do you have reasonable control?
- 11 A. Yes, sir.
- 12 Q. Well, you must have sold these to your
- 13 managers, so --
- 14 You can drill these economically and make a
- 15 decent profit?
- 16 A. Yes, sir. We've had great results on the north
- 17 two wells.
- 18 Q. What would be the biggest risk?
- 19 A. Making sure that the completion goes off
- 20 correctly.
- 21 O. Okay (laughter).
- 22 A. Our geologic risks, I would say, are very
- 23 minimal because the section is so thick. There isn't a
- 24 specific target landing point. We're just landing as
- 25 deep into the section as possible and letting the bit

- 1 kind of work itself updip.
- Q. Okay. And there is no damage due to drilling
- 3 fluids?
- A. Not that we've seen.
- 5 O. You're able to frac through it anyway?
- A. Yes, sir, about 13 stages.
- 7 Q. 13 stages. Any idea how far they go or how far
- 8 they're propped?
- 9 A. You know, that's an even better question. If
- 10 we could answer that, everybody would -- no, I don't
- 11 have that answer.
- 12 Q. But if you weren't drilling in this depth, the
- 13 bottom, what would be the next possible depth that you
- 14 would --
- 15 A. The Blinebry, which would be the section -- or
- 16 the formation just below it within the Yeso.
- 17 Q. Is it easy to see the top between the Paddock
- 18 and the Blinebry?
- 19 A. You can see the base of the Paddock, the
- 20 porosity, go away. It's pretty definitive.
- 21 Q. So it's anhydrite?
- 22 A. They're interbedded dolomites.
- 23 Q. Okay. Okay. Thanks very much. Appreciate it.
- 24 EXAMINER BROOKS: I did have one question
- 25 after all.

	Page 23
1	CROSS-EXAMINATION
2	BY EXAMINER BROOKS:
3	Q. You said you prefer to drill lay-downs in this
4	area, but you've drilled stand-ups because, I suppose,
5	the development in the area?
6	A. That's correct. Yes, sir.
7	Q. Why do you prefer to drill lay-downs?
8	A. Just based on the production history from
9	previous wells and what we've seen in the area. The
10	lay-downs tend to perform better, and that may be
11	related to fracturing. But we haven't
12	Q. You don't have a definite theory as to
13	A. We don't have an answer.
14	Q why that's just something you've
15	experienced?
16	A. Yes, sir.
17	Q. That's all I have.
18	EXAMINER JONES: Ready to take these under
19	advisement?
20	MR. BRUCE: Yes, sir.
21	EXAMINER JONES: Okay. Cases 15566 and
22	15567 have been heard and are taken under advisement.
23	(Case Numbers 15566 and 15567 conclude,
24	10:46 a.m.)

24