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				Page 3
1	I N D	E X		
2	CASE NUMBER 15345 CALLED			
3	LG&S OIL COMPANY, LLC			
4	CASE-IN-CHIEF:			
5	WITNESS BRIAN WOOD			
6	By Mr. Padilla	Direct 10	Redirect	Further
7	by mr. radifia	10		
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13	Reporter's Certificate			Page 25
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PAUL BACA PROFESSIONAL COURT REPORTERS 500 FOURTH STREET NW - SUITE 105, ALBUQUERQUE, NM 87102

(WHEREUPON, the presenting witnesses

24

25

you sworn in.

- were administered the oath.)
- MR. FELDEWERT: Mr. Examiner, I do have an
- 3 opening statement.
- 4 EXAMINER GOETZE: Would you like to have an
- 5 opening statement?
- 6 MR. PADILLA: No.
- 7 EXAMINER GOETZE: Mr. Feldewert.
- 8 MR. FELDEWERT: Mr. Examiner, I handed you
- 9 our exhibit package as well as Division order 14091,
- 10 which was entered by the Division in December of 2015.
- 11 I'm going to be referring briefly to that.
- 12 If you look at Devon Exhibit 1, and you open
- 13 that up in our exhibit package, it shows Devon's
- 14 leasehold acreage in the area in yellow.
- And, in addition, it shows, for your
- 16 convenience, the proposed disposal wells listed on here
- 17 as the Keohani Federal No. 3 right below the Shugart Gas
- 18 Well. That is shown as a plug symbol, but, in fact,
- 19 that well has been producing from the Queen since 1972.
- The hatched area with the red hatch shows
- 21 Devon's Queen rights in the acreage in section 28.
- 22 Devon is invested in this area. They have extensive
- 23 acreage holdings. They have drilled the well that you
- 24 see there in blue -- the two wells in blue into the Bone
- 25 Spring.

- 1 They have six -- or they have some
- 2 additional Bone Spring wells planned. They are shown on
- 3 the green line. Their thought when they started
- 4 developing was to start with the deeper zones and then
- 5 move shallower. But with the advent of this case and
- 6 with the oil prices, they are now actually examining
- 7 going directly to the Queen because it's actually
- 8 cheaper to drill in the Queen with horizontals and
- 9 deeper. We're going to have a witness testify to
- 10 that.
- But the main point here is to show you that
- 12 this disposal well is right in the middle of their
- 13 acreage. LG&S operates, to my knowledge, two wells in
- 14 New Mexico on the 80-acre tract, which is the east half
- 15 of the northwest quarter. That's it.
- 16 Both of those wells have been producing from Queen for
- 17 some time now. And it's one of them that they seek to
- 18 now convert to a disposal well. If you take a look at
- 19 their C-108 application --
- MR. FELDEWERT: Did you provide them with
- 21 your exhibits there?
- MR. PADILLA: Yes, I did.
- MR. FELDEWERT: The C-108 application, which
- 24 is their first Exhibit, I want to take you to a
- 25 statement in there, because I think it's important and I

- 1 think it's important to keep in mind as you go through
- 2 this. It's not paginated. But if you look in the upper
- 3 right-hand corner, there is a page 1 of their
- 4 application.
- 5 It is a couple of pages in. And in the
- 6 upper right-hand corner is page 1. And it starts their
- 7 description, their narrative description of what they're
- 8 doing here.
- And what is important here is if you look at
- 10 the second paragraph, under Roman numeral I, it reflects
- 11 what the well was producing that they seek to now use
- 12 for injection in 2014, about halfway through the second
- 13 paragraph.
- 14 What I want to read to you is the next two
- 15 sentences, because what they say -- this is their words,
- 16 it's not mine -- as stated: "...is no longer economical
- 17 to operate the well as an oil well under current oil
- 18 prices. The plan is to dispose into the Queen from
- 19 3,280 to 3,570, the same interval that currently" -- but
- 20 they say -- "uneconomically now produces."
- 21 So we have no debate here that they're
- 22 seeking to dispose into a producing interval simply
- 23 because it's no longer economic to LG&S to produce this
- 24 well at today's prices. That's their words.
- There is also no debate here that once you

- 1 inject into this proposed zone, you're going to start
- 2 condemning the Queen oil to nothing but a disposal
- 3 formation.
- 4 My point is your duty as a Division is to
- 5 prevent waste and protect correlative rights. And
- 6 "waste" is not defined by today's oil prices, and it's
- 7 not defined by what a company thinks is economic to them
- 8 at a certain point in time.
- 9 Your duty is to look long term. And as you
- 10 reflected in the order that I gave to you, Order 14091
- 11 issued by this Division in December, in that case you
- 12 were looking at a proposal to inject in the Brushy, in
- 13 the Cherry, and in the Bell Canyon formations.
- And if you go to page 4 of that order, the
- 15 Division I think does a good -- articulates here what I
- 16 understand to be the standard now. It's under the
- 17 Division's conclusions in paragraphs, 25, 26, and 27.
- Here's what the Division says, "Opponent's
- 19 testimony and evidence supported a viable potential for
- 20 occurrences of hydrocarbon resources in both the Cherry
- 21 Canyon and Brushy Canyon formations."
- The next paragraph, paragraph 26, "Opponent
- 23 stated an interest in investigating both the Cherry
- 24 Canyon and Brushy Canyon Formation for hydrocarbon
- 25 resources with development using horizontal wells."

- 1 And then you talked about the Bell Canyon.
- 2 "Both the applicant and opponent confirmed low potential
- 3 in the area in the Bell Canyon Formation for hydrocarbon
- 4 resources that would support further investigation, in
- 5 other words, low potential for even investigation and
- 6 possible development."
- 7 You, therefore, allowed injection into the
- 8 Bell. You did not for the Cherry and the Brushy where
- 9 there was a viable potential for occurrences of
- 10 hydrocarbon resources in a party that is interested in
- 11 examining that formation for development using
- 12 horizontal wells.
- 13 That is what we got here. I think this
- 14 statement alone is enough to deny their application, but
- 15 Devon is going to present the three witnesses here
- 16 today, and they are going to show you, yes, we're
- 17 heavily invested, we believe the Queen's productive,
- 18 Devon strongly believes the Queen is productive in this
- 19 area. And they are going to show you why.
- 20 And we are also going to demonstrate that
- 21 there's some serious objections or issues with respect
- 22 to their proposed wellbore that they seek to use. We
- 23 are going to use an engineer to demonstrate that.
- But I think, if you look at your statement
- 25 here in this order and you just look at the statement

- 1 they make in their application, the fact that they want
- 2 to inject into a currently producing formation, just
- 3 because they think it's uneconomic to them at today's
- 4 oil prices, does not meet the Division's test. I am
- 5 going to ask that you deny this application.
- 6 EXAMINER GOETZE: Thank you.
- 7 MR. PADILLA: That is an excellent closing
- 8 argument. We will call our first witness, Brian Wood.
- 9 BRIAN WOOD
- 10 having been first duly sworn, was examined and testified
- 11 as follows:
- 12 DIRECT EXAMINATION
- 13 BY MR. PADILLA:
- Q. Mr. Wood, would you please state your name.
- 15 A. Yes. My name is Brian Wood.
- Q. And have you testified before the Oil
- 17 Conservation Division previously?
- 18 A. Yes.
- 19 Q. In what capacity?
- 20 A. As a regulatory consultant.
- Q. And have you prepared C-108s in the past that
- 22 have been submitted to the Division for approval?
- 23 A. Yes.
- Q. And did you prepare the C-108 for LG&S in this
- 25 case?

- 1 A. Yes.
- 2 MR. PADILLA: We tender Mr. Wood as a
- 3 regulatory consultant for oil and gas matters.
- 4 MR. FELDEWERT: No objection.
- 5 EXAMINER GOETZE: Very good. He is so
- 6 qualified.
- 7 Q. Mr. Wood, let's turn our attention to Exhibit 1
- 8 and have you tell us what that is.
- 9 A. Exhibit A, is that what you're referring to or --
- 10 Q. Exhibit 1.
- 11 A. Okay. This is the C-108 application package that
- 12 I prepared. It includes the form itself and text and a
- 13 number of maps and exhibits.
- Q. Let's start out with the first page. And that's
- 15 a standard C-108 with your signature at the bottom; is
- 16 that right?
- 17 A. Yes.
- 18 Q. And you have a number of attachments to this.
- 19 And I want you to start in the second page of the
- 20 application itself for authorization to inject. And
- 21 I'll ask you if this is the same application that you
- 22 filed as an administrative application before the
- 23 Division?
- 24 A. Yes.
- Q. Were there any objections by anyone other than

- 1 Devon?
- 2 A. I believe that was the only one that I was aware
- 3 of.
- Q. Did COG at any time prior to this hearing make
- 5 any objection, to your knowledge?
- 6 A. Not that I am aware of.
- 7 Q. Let's go to the first schematic that you have.
- 8 It is on the fourth page. What is that schematic about?
- 9 A. It depicts the wellbore as it currently exists,
- 10 which also happens to be the plan it approved.
- It shows that the well was drilled at 3,650 feet.
- 12 It was plugged back to 3,600 feet. It is currently
- 13 perforated in the Queen Formation from 3,280 feet to
- 14 3,570 feet. That is an intended disposal zone.
- 15 Q. In looking at this -- what did you look at in
- 16 order to prepare this schematic?
- 17 A. I looked at the documents that are online on the
- 18 OCD website.
- 19 Q. In terms of the cementing program on this well,
- 20 that shows, as I see this, surface cement circulated to
- 21 259 feet?
- 22 A. Right.
- Q. And then the first -- and then the next cementing
- 24 job is to where?
- 25 A. To the surface.

- 1 Q. Did you see anything in the well files concerning
- 2 this well that would give you some cause of concern that
- 3 would eliminate this well from being converted to a salt
- 4 water disposal well?
- 5 A. I did not.
- 6 Q. The following page is an injection well data
- 7 sheet. Could you briefly summarize what that contains?
- 8 A. It shows our proposed tubing; our type of packer;
- 9 packer setting depth; what was the well originally
- 10 drilled for. In this case a water well into the Queen.
- It shows what we're proposing, which is a salt
- 12 water disposal Queen well; has it been perforated in the
- 13 past; overlying production zones; underlying producing
- 14 zones within the area of review.
- Q. At the bottom of this page, at Number 5, the
- 16 formation above that is the Yates Formation. And I ask
- 17 you why did you list the Yates there?
- 18 A. It produces within the area of review and is
- 19 above the Queen Formation.
- Q. And under you have the Morrow Formation at 11,582
- 21 feet. Is this well productive?
- 22 A. Yes.
- Q. From the Morrow?
- A. Well, not this well, not the Keohani 3; but the
- offset well, which is 330 feet north, which is a Devon

- 1 well, does produce from the Morrow.
- Q. Does Devon have any other wells in the area that
- 3 produce from the Queen Formation?
- 4 A. No.
- 5 Q. Where do the Devon wells produce from within the
- 6 area of review?
- 7 A. Let's see here.
- Q. Is this further back in your analysis?
- 9 A. Yes, this would be object page 3. There is a
- 10 Devon well 330 feet north of the proposal that produces
- 11 from the Morrow and then there's a Devon well that is
- 12 1,403 feet away that produces from the Morrow. And that
- 13 was it as of April last year.
- Q. Let's look at the page that Mr. Feldewert was
- 15 referring to in this application, and it's labeled page
- 16 1 at the top, and that's following the well data sheet.
- Can you elaborate on why this well is no longer
- 18 economical?
- 19 A. In the operator's judgment, he cannot make money
- 20 off of it as an oil well.
- Q. Do you know what the production, what the daily
- 22 production is on this well?
- 23 A. I do not currently.
- Q. When you made the application, did you endeavor
- 25 to find out whether it was productive of oil in the

- 1 Queen?
- 2 A. Well, in 2014, it did produce 1,453 barrels of
- 3 oil from the Queen.
- Q. Do you know what the costs of operating this well
- 5 are?
- 6 A. I do not.
- 7 Q. To your knowledge, have you been -- let me ask it
- 8 this way. Have you been informed as to what the
- 9 operating costs for operating this well would be?
- 10 A. I have not.
- 11 Q. Let's go on to the next page which is labeled
- 12 page 2. What does that contain that is significant in
- 13 terms of the injection interval?
- 14 A. It shows, first of all, where we are going to set
- 15 the packer; what the disposal zone is; the depth of the
- 16 disposal zone; that the well has been twice drilled as a
- 17 Oueen oil well.
- 18 It shows the perforation details; that the Yates
- 19 is the only oil and gas in production above the Queen in
- 20 the area of review; that the Morrow is the only oil and
- 21 gas below the Queen that produces within the area of
- 22 review; that this is intended for disposal.
- And, then, as we transition into Roman numeral V,
- 24 that's a tabulation of the leases and if there's any
- 25 Queen operations within the area of review.

- 1 Q. Are there any Queen operations within the area of
- 2 review?
- 3 A. Yes. There are two wells currently. One is
- 4 operated by LG&S. Although, if LG&S is successful in
- 5 getting approval for this as a Queen salt water disposal
- 6 well, it will then file an application for that to be a
- 7 Queen salt water disposal well.
- And then there's a second Queen well, north of
- 9 that, that is operated by a Mr. Cone. There is no
- 10 address of record on the OCD website. It has not
- 11 produced since 2009. It had been part of a unit, and
- 12 that unit has been terminated by the BLM.
- 13 Q. Now, part 6 on page 3, what information is
- 14 contained there?
- 15 A. This lists all the existing wellbores within the
- 16 area of review. It's ranked by distance from the
- 17 proposed salt water disposal well. It indicates that
- 18 there is a total of 11 wellbores within the area of
- 19 review, ten of which penetrated the Queen and 7 of the
- 20 11 wells have been plugged and abandoned.
- 21 Q. Except for the LG&S wells in section 28, I
- 22 gathered from this that there is no Queen production?
- 23 A. No, not currently.
- Q. What does section 7 contain on page 4?
- 25 A. This is just a quick summary of our proposed

- 1 disposal rates, pressures, where the water will come
- 2 from, history of the well. And I think earlier you had
- 3 asked about production. I do have here that in 2014 the
- 4 production averaged four barrels of oil per day.
- 5 Q. How much water has been produced in that well?
- 6 A. In 2014, it produced an average of 71 barrels of
- 7 water per day.
- Q. Do you know where that water is going to?
- 9 A. I do not.
- 10 O. Section 8 is what?
- 11 A. This is just kind of a quick geologic summary.
- 12 We talk about what the nature of the Queen sandstone is,
- 13 where underground drinking water is located, water
- 14 wells, and then just a list of the formations and their
- 15 depths.
- Q. Do you have somewhere in here where there are
- 17 water wells?
- 18 A. There were no water wells found within a two-mile
- 19 radius. That is based on both a review of the State
- 20 Engineer's Office website and a field inspection.
- Q. You actually went out?
- 22 A. I did not, but one of my hands did.
- Q. Okay. In part 12 you state that you are not
- 24 aware of any geologic or engineering data that would
- 25 indicate that the Queen has a hydrologic connection with

- 1 any underground sources of water?
- 2 A. Correct.
- 3 Q. How did you come to that conclusion?
- 4 A. Examining just the wellbores nearby, this
- 5 particular wellbore, in particular; also looking at
- 6 where the closest quaternary fault is.
- 7 O. Where is that?
- 8 A. It is about 75 miles to the --
- 9 MR. FELDEWERT: Let me object to the witness
- 10 here attempting to offer an opinion on geologic data
- 11 when he is only qualified as a -- I'm sorry -- what is
- 12 the qualification again?
- 13 THE WITNESS: Regulatory consultant.
- MR. FELDEWERT: So I would object to a
- 15 discussion about the geology of the area.
- 16 EXAMINER GOETZE: I am going to ask Counsel,
- 17 your second witness is a geologist?
- MR. PADILLA: He's an engineer.
- 19 EXAMINER GOETZE: That's sad.
- MR. PADILLA: He is testifying in a trial in
- 21 El Paso today, and I couldn't continue this any further
- 22 today --
- 23 EXAMINER GOETZE: Well, let's look at this.
- 24 The application -- I assume you are going to enter this
- 25 exhibit -- the entity, LG&S, has to be a person of

- 1 competent knowledge to make the statement. So since we
- 2 are not an environmental scientist, a geologist, a PE, I
- 3 would ask that LG&S clarify this statement in an
- 4 individual submission and provide a person so qualified
- 5 to make the statement.
- 6 MR. PADILLA: We'll do that.
- 7 EXAMINER GOETZE: Thank you. We will
- 8 proceed with your questioning -- what?
- 9 (Discussion between Examiner Goetze and
- 10 Mr. Wade.)
- 11 EXAMINER GOETZE: Off the record for a
- 12 moment.
- 13 (Discussion off the record.)
- 14 EXAMINER GOETZE: In light of Counsel's
- 15 advice, since we are going to request this, we ought to
- 16 be looking at a continuance, but we are going to proceed
- 17 with what we have now.
- 18 My question to you, since you don't have a
- 19 geologist present and there is a lot of geology
- 20 involved, is there going to be a need to have him
- 21 provide testimony?
- MR. PADILLA: If the same objection is going
- 23 to be made relating to our geologic submission, I inform
- 24 Mr. Feldewert that I do have that problem. I don't want
- 25 to do a geologic analysis in this case, but we do have

- 1 the cross sections that were prepared by Dr. Powers in
- 2 collaboration with Mr. Baxi, and they are intended only
- 3 to show where the injection interval and the cross
- 4 section is. But I am handicapped by not having Dr.
- 5 Powers here today.
- 6 MR. FELDEWERT: Mr. Examiner, I think you
- 7 can anticipate what I see as a problem, and that is they
- 8 have this application that has been signed by a
- 9 regulatory consultant that contains a number of geologic
- 10 opinions that have not been veri- -- and I just looked
- 11 through here. There is no verification of any of these
- 12 statements.
- So, in my mind, they have not presented a
- 14 viable application for the Division to consider here
- 15 today. They don't have a witness that can introduce
- 16 this exhibit and verify the statements in this exhibit.
- 17 And I have no witness to cross-examine on the statements
- 18 in this exhibit.
- 19 EXAMINER GOETZE: Off the record again.
- 20 (Discussion off the record.)
- 21 EXAMINER GOETZE: Back on the record.
- So what is the probability of that with a
- 23 two-week continuance your witness would be available so
- 24 that you would have full representation?
- MR. PADILLA: He doesn't have any problem, I

- 1 think, after January 10th.
- 2 MR. FELDEWERT: I have just been informed
- 3 our witness cannot be here two weeks from now.
- 4 EXAMINER GOETZE: I know --
- 5 MR. WADE: So, Mr. Feldewert, going back to
- 6 your statement earlier, you said there is no
- 7 verification within the C-108?
- 8 MR. FELDEWERT: I haven't found one. Maybe
- 9 I missed it. I was paging through it while we were
- 10 going through this.
- 11 THE WITNESS: Exactly what topic, if I could
- 12 ask that question.
- MR. FELDEWERT: Of any of the geologic and
- 14 engineering statements.
- 15 THE WITNESS: For instance, the formation
- 16 tops came from online OCD records.
- 17 EXAMINER GOETZE: I would suggest that the
- 18 affirmation statement regardless -- of any application
- 19 has to be made by a qualified person regardless of --
- 20 the remaining content if found to be public record can
- 21 be so submitted and considered.
- I think at least we'll move forward, the
- 23 application has been made, and we accepted it before
- 24 with the administrative process, noting that we did need
- 25 to have the clarification of who made the affirmation

- 1 statement.
- 2 Let us proceed with the examination of the
- 3 C-108. And seeing how you folks are limited and you
- 4 folks are handicapped --
- 5 MR. WADE: Can I just ask --
- 6 EXAMINER GOETZE: Yes.
- 7 MR. WADE: Mr. Padilla, would you have had
- 8 Dr. Powers testify --
- 9 MR. PADILLA: He would have been here. He's
- 10 been here -- as a matter of fact, we had a problem
- 11 because he had to be back in Austin sometime in
- 12 December, and the case was continued for two weeks.
- But our continuance on November 12th was
- 14 based on availability of witnesses. And I think the
- 15 case was called --
- MR. WADE: What specifically would he have
- 17 testified to today or would testify to in the future?
- 18 MR. PADILLA: All geologic matters.
- MR. WADE: And what part did he take in
- 20 preparing the C-108?
- MR. PADILLA: I don't think he had one, but
- 22 he can certainly verify --
- MR. WADE: The information in the --
- MR. PADILLA: -- the information that's
- 25 there. We do have cross sections that he prepared, and

- 1 I was going to attempt to introduce them, not from a
- 2 geologic analysis but it would be helpful to absolutely
- 3 have them here because of his expertise in geology.
- 4 EXAMINER GOETZE: Let's take a five-minute
- 5 break.
- 6 (Brief recess.)
- 7 EXAMINER GOETZE: We're back on the record
- 8 again.
- 9 Having talked with Counsel, having looked at
- 10 what has been submitted as potential exhibits, geology
- 11 plays a significant role in this discussion. And I
- 12 think, not having Dr. Powers here to, at least, be able
- 13 to present as well as being able to cross represents a
- 14 big hindrance in this case; therefore, we are going to
- 15 ask for a continuance and a rescheduling where everybody
- 16 can come; we will even accommodate to the point of doing
- 17 it off docket.
- I think if we wish to present even and good
- 19 information, we need to have all participants present.
- So, Counselors, any idea?
- MR. FELDEWERT: We were thinking
- 22 February 4th docket.
- MR. PADILLA: That is fine with us.
- 24 EXAMINER GOETZE: Well, then let's do this.
- 25 At this point --

Oll Conservation Division

_, Examiner

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	Page 25			
1	STATE OF NEW MEXICO)			
2) ss.			
3	COUNTY OF BERNALILLO)			
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7	REPORTER'S CERTIFICATE			
8	I, ELLEN H. ALLANIC, New Mexico Reporter CCR			
9	No. 100, DO HEREBY CERTIFY that on Thursday, January 7, 2016, the proceedings in the above-captioned matter were taken before me, 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 and control.			
10				
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13	I FURTHER CERTIFY that I am neither employed by			
14	nor related to nor contracted with (unless excepted by the rules) 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.			
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