

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

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

CASE NO. 13,327

APPLICATION OF XTO ENERGY, INC., TO)
AMEND DIVISION ORDER NUMBER R-11,132-B)
FOR SIMULTANEOUS DEDICATION AND AN)
UNORTHODOX GAS WELL LOCATION IN SAN JUAN)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 19th, 2004

Santa Fe, New Mexico

2004 SEP 2 AM 9 58

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 19th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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August 19th, 2004
Examiner Hearing
CASE NO. 13,327

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

ALSO PRESENT:

GORDON HAMMOND
Tribal Energy Department
Ute Mountain Ute Tribe
P.O. Box 42
Towaoc, Colorado 81334

* * *

1 WHEREUPON, the following proceedings were had at
2 9:40 a.m.:

3 EXAMINER STOGNER: The hearing will come to order
4 again. At this time I'll call Case Number 13,327. This is
5 the Application of XTO Energy, Inc., to amend Division
6 Order Number R-11,132-B for simultaneous dedication and an
7 unorthodox gas well location in San Juan County, New
8 Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
11 representing the Applicant. I have two witnesses.

12 EXAMINER STOGNER: Any other appearances?

13 Mr. Bruce, is this on tribal lands, this --

14 MR. BRUCE: Yes, it's on Ute Mountain Ute tribal
15 lands, and Mr. Gordon Hammond from the Ute Mountain Utes is
16 in the audience.

17 EXAMINER STOGNER: I'd like to make note of that,
18 that the Ute Mountain Ute tribal representative is here in
19 the audience today, and if you have any questions I'll open
20 it up and you'll be able to ask the question or make a
21 statement later, so don't feel shy.

22 Any other appearances on the record?

23 Okay, will the witnesses please stand to be
24 sworn?

25 (Thereupon, the witnesses were sworn.)

1 TIM WELCH,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name for the record?

7 A. Tim Welch.

8 Q. Where do you reside?

9 A. Grapevine, Texas.

10 Q. Who do you work for and in what capacity?

11 A. XTO Energy, Inc., as a division landman in Fort
12 Worth, Texas.

13 Q. Have you previously testified before the
14 Division?

15 A. Yes, I have.

16 Q. And were your credentials as an expert petroleum
17 landman accepted as a matter of record?

18 A. Yes, they were.

19 Q. And are you familiar with the land matters
20 involved in this case?

21 A. Yes, sir, I am.

22 MR. BRUCE: Mr. Examiner, I'd tender Mr. Welch as
23 an expert petroleum landman.

24 EXAMINER STOGNER: Mr. Welch is so qualified.

25 Q. (By Mr. Bruce) Before we begin, Mr. Welch, we're

1 seeking to amend an order that was issued in favor of Cross
2 Timbers Oil Company. What is the relationship between
3 Cross Timbers and XTO?

4 A. We've had a name change. It's now XTO Energy,
5 Inc.

6 Q. Okay. Could you identify your Exhibit 1 and just
7 briefly describe what is depicted on this plat?

8 A. Yes, sir, the Exhibit 1 is a nine-section plat
9 representing XTO's 100-percent working interest, leasehold
10 interest, as depicted in yellow, and it also shows the
11 three separate tribal leases that we own in the area, the
12 Tribal "A" Lease, the Tribal "J" Lease, and the Tribal "D"
13 lease.

14 Q. Is XTO the only working interest owner in these
15 three leases?

16 A. That's correct.

17 Q. And all three are Ute Mountain Ute Tribal leases,
18 are they not?

19 A. That's correct.

20 Q. What is the royalty under each of the leases?

21 A. One-eighth.

22 Q. Okay, so there -- Are there any overriding
23 royalties on this acreage?

24 A. No, sir.

25 Q. So in other words, interest, royalty and working

1 interest is uniform throughout the nine sections in this
2 area?

3 A. Yes, sir. Now, beyond the nine-section area
4 there could be some differences, but in the offsetting area
5 to the southeast quarter of Section 2 that is the case.

6 Q. Okay. Does this plat also depict all wells on
7 these leases?

8 A. Yes, it does.

9 Q. Okay. Now, let's concentrate on the southeast
10 quarter of Section 2. There are four wells on this quarter
11 section, and we are here today regarding the A 27 well and
12 the A 32, but let's discuss these others first.

13 There's the A 26 well. What is the status of
14 that well?

15 A. That's a producing Paradox well.

16 Q. Okay. And that well is not involved in this
17 Application; is that correct?

18 A. That is correct, yes, sir.

19 Q. There's also the A 20 well. What is the current
20 status of that well?

21 A. That well is plugged and abandoned.

22 Q. Okay, so it has been recently plugged and
23 abandoned?

24 A. I believe it was plugged and abandoned in 2003,
25 yes, sir.

1 Q. Okay. Now with respect to the order, R-11,132-B,
2 that order approved the simultaneous dedication in the Ute
3 Dome-Dakota Gas Pool to the Well Numbers 20 and 32,
4 correct?

5 A. Yes, sir.

6 Q. And since the Number 20 well is plugged and
7 abandoned, you seek to amend the order to allow the
8 southeast quarter to be simultaneously dedicated to the
9 Well Numbers A 27 and A 32?

10 A. That is correct.

11 Q. In the Ute Dome-Dakota Gas Pool?

12 A. Yes, sir.

13 Q. Now, the A 27 well was originally drilled to what
14 formation?

15 A. Morrison formation.

16 Q. And that has been producing only in the Morrison;
17 is that correct?

18 A. Yes, sir.

19 Q. And I believe the prior order also approved the
20 unorthodox location for that well?

21 A. Yes, sir.

22 Q. Okay. Will the A 27 then be abandoned in the
23 Morrison and produced only from the Dakota?

24 A. I believe that will be the case initially, and
25 perhaps I should defer to our next witnesses as to plans

1 beyond the next year or two where the possibility may exist
2 for a commingle situation.

3 Q. Okay. Now, the prior order or orders approved
4 the unorthodox location for the A 27 in the Morrison
5 formation. Is XTO now requesting approval of an unorthodox
6 location in the Dakota formation for the A 27 well?

7 A. That is correct.

8 Q. And again, even though it is highly unorthodox, I
9 believe the location is what, 2600 feet from the south
10 line?

11 A. Yes, sir.

12 Q. All of Section 2 is owned in common; is that
13 correct?

14 A. That's correct.

15 Q. And so the unorthodox location will not adversely
16 affect any interest owner?

17 A. Yes, sir.

18 Q. Now with respect to notice, Mr. Welch, three
19 entities were notified: the Ute Mountain Ute Tribe,
20 correct?

21 A. Yes, sir.

22 Q. And the federal Bureau of Land Management?

23 A. That's correct.

24 Q. In dealing with these lands, do you deal with
25 both the Ute Mountain Utes and the federal Bureau of Land

1 Management?

2 A. Yes, we do.

3 Q. And also there is a notice given to Jerry Simon
4 of Data Consultants, Inc. What is his position?

5 A. It's my understanding that Jerry works as a
6 consultant for the Ute Mountain Ute Tribe.

7 Q. Okay, and all of those people were notified of
8 this Application, were they not?

9 A. Yes, sir, that's correct.

10 Q. Were Exhibits 1 and 6 prepared by you or under
11 your supervision or compiled from company business records?

12 A. Yes, sir.

13 Q. And in your opinion is the granting of this
14 Application in the interests of conservation and the
15 prevention of waste?

16 A. Yes, sir.

17 MR. BRUCE: Mr. Examiner, I'd move the admission
18 of XTO Exhibits 1 and 6.

19 EXAMINER STOGNER: Exhibits 1 and 6 will be
20 admitted into evidence.

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. Yes sir, Mr. Welch, in referring to Exhibit
24 Number 1, the Well Number 32 and 26, they appear to have
25 been directionally drilled. Is that the blue indication,

1 those little blue lines?

2 A. Yes, sir, the -- I know it's hard to read, but
3 the blue dot would be the surface location.

4 Q. Do you know why the configuration of the
5 directional drill and the necessity was?

6 A. It's my understanding it was due to faulting in
7 the area.

8 Q. Okay, so geological?

9 A. Yes, sir.

10 Q. Okay. Subsurface?

11 A. Exactly. There could have been some
12 considerations for topography too, Mr. Examiner. I have to
13 admit it's been awhile since I've visited that particular
14 issue, but it could have been twofold.

15 Q. And that was what I was -- leading up to my next
16 question, what are the surface concerns in this area, in
17 this nine-section area?

18 A. A lot of the topography out here has a lot of
19 relief to it, so it's very common to have some situations
20 where we have to seek some relief because of adverse
21 conditions in trying to get a location built?

22 Q. Now, that's just the topography that you're
23 talking about or referring to at this point?

24 A. Yes, sir.

25 Q. How about other surface conditions that may

1 exist, archaeological?

2 A. I'm not aware of any in this particular area, but
3 I do know there are some concerns of that nature in some of
4 our other locations throughout these leases.

5 Q. Any other surface concerns that XTO or an
6 operator out there contends with to satisfy the tribe or
7 the BLM?

8 A. Those three are the ones that I'm predominantly
9 familiar with, Mr. Examiner. I'm not familiar with any
10 others in recent history.

11 Q. Now, you mentioned you had sent to the BLM --
12 now, this is the BLM office out of the Durango area; is
13 that correct?

14 A. Yes, sir.

15 Q. Just for the record, why not the New Mexico BLM?
16 This is an elementary question, but I need it for the
17 record, and also the new supervisor that I have.

18 Q. Historically, that's what we've been asked to do,
19 and perhaps the next witness would have a better historical
20 perspective than that, than I, but during my tenure with
21 XTO the last five years, it has always been requested of us
22 to deal with the Durango office for jurisdictional
23 purposes.

24 EXAMINER STOGNER: Mr. Bruce, do you have any --

25 MR. BRUCE: I believe part of it may be that the

1 bulk of the Ute Mountain Ute Tribe is in Colorado, and I
2 would guess that they are the ones with primary -- the
3 Durango office is the BLM office with the primary
4 jurisdiction --

5 EXAMINER STOGNER: And the consistency of --

6 MR. BRUCE: Rather than having it split up
7 between the Farmington and the Durango offices where there
8 could be, you know, conflicting interpretation of
9 regulations, etc.

10 EXAMINER STOGNER: That's what I wanted to put
11 into the record, because that's my understanding. And it
12 makes sense too, so -- Well, I guess it depends on which
13 BLM office you like dealing with better than the other.

14 Q. (By Examiner Stogner) Now, Mr. Welch, you're not
15 -- naturally you're not proposing to -- or what you've
16 shown here, you're not proposing to drill any new
17 additional wells; these are just the rules and regulations
18 that you contend with utilizing the existing wells in this
19 160-acre area?

20 A. Yes, sir, that is correct.

21 EXAMINER STOGNER: Any other questions of Mr.
22 Welch? Does anybody have any questions of this witness?

23 Thank you, sir, you may be excused.

24 Mr. Bruce?

25 MR. BRUCE: Call Mr. Voigt to the stand.

BARRY VOIGT,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name for the record?

A. Barry Voigt.

Q. How do you spell your last name?

A. V as in Victor, o-i-g-t.

Q. Where do you reside?

A. Azle, Texas.

Q. Who do you work for and in what capacity?

A. XTO Energy, Inc., as a senior reservoir engineer in Fort Worth, Texas.

Q. Have you previously testified before the Division?

A. Yes, I have.

Q. And were your credentials as an expert engineer accepted as a matter of record?

A. Yes.

Q. And are you familiar with the engineering matters involved in this Application?

A. Yes.

Q. Did you testify in the previous hearings regarding these wells?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I'd tender Mr. Voigt as
3 an expert reservoir engineer.

4 EXAMINER STOGNER: Mr. Voigt is so qualified.

5 Q. (By Mr. Bruce) Mr. Voigt, could you identify
6 Exhibit 2 for the Examiner and just briefly describe the
7 geology in this area?

8 A. Exhibit Number 2 is a structure map of the top of
9 the Dakota sandstone. You do see the faulting in the blues
10 and oranges. The blues are basically faults that are
11 downdipping to the north, and the orange is downdipping to
12 the south.

13 Q. Is this the same -- basically the same map that
14 was presented in the prior hearings in this matter?

15 A. Yes, but just a different presentational format,
16 since they changed computer programs for presentation.

17 Q. Okay, the data is the same --

18 A. Yes.

19 Q. -- as previously submitted to the Division?

20 A. Yes.

21 Q. And essentially because of the faulting, none of
22 these wells is going to drain the entire southeast quarter;
23 is that the --

24 A. Correct.

25 Q. -- essential geologic interpretation?

1 A. Correct.

2 Q. And again, looking at the -- Okay, the numbers
3 are there. Again, the A 20 well has been P-and-A'd,
4 correct?

5 A. Correct.

6 Q. Is the A 27 well still producing from the Morrow
7 sand?

8 A. Yes, it is, at approximately 30 MCF a day.

9 Q. Okay. And what is the proposal? Are you just
10 going to complete in the Dakota and produce from the Dakota
11 at this time if approval is granted?

12 A. Yes, and if -- once the Dakota does deplete off
13 and pressures come down, we'll consider commingling the
14 Morrison.

15 Q. Okay. And again, the A 32 well is completing in
16 the Dakota, correct?

17 A. Correct.

18 Q. Did it ever produce from the Morrison?

19 A. No, it did not.

20 Q. And then finally, although it's really not at
21 issue today, the A 26 well, that is strictly a Paradox
22 well, correct?

23 A. Yes.

24 Q. And what is that well currently producing?

25 A. It's currently producing at approximately a

1 million a day in gas.

2 Q. What is Exhibit 3?

3 A. Exhibit 3 is a cumulative production map with a
4 nine-section area showing Section 2 in the center of it.

5 Q. And is the bulk of the production from the Dakota
6 and the Morrison and the Paradox in this area?

7 A. Yes, the Morrison producers, this basically shows
8 just Morrison and Dakota producers on this map, and the
9 Morrison is the yellow, and then the Dakota is the other.

10 Q. Are there any oil wells in this area?

11 A. There is one that has cum'd quite a bit of oil,
12 but it's way -- it's in the southwest of Section 11.

13 Q. Okay. The wells in the southeast quarter of
14 Section 2, do they have any uphole zones of interest at
15 this point?

16 A. Not at this point.

17 Q. What is Exhibit 4?

18 A. Exhibit 4 is production plots for the Dakota
19 wells that have produced in the southeast quarter of
20 Section 2. The first one is the Ute Indians A 32.

21 It also has an estimate of the remaining reserves
22 on that well for an estimated ultimate recovery, and the
23 Ute Indians A 20 is the production plot for that well. and
24 that well is currently P-and-A'd but shows the cumulative
25 production prior to P-and-A'ing that well.

1 Q. Why don't you move on to Exhibit 5 and discuss
2 the type of reserves you hope to recovery ultimately from
3 both the wells, the 27 and the 32, if this Application is
4 granted?

5 A. This exhibit shows the current producing Dakota
6 wells. Of course the A 20 is P-and-A'd. The estimated
7 ultimate recovery from the A 20 and A 32 is 523 million
8 cubic feet.

9 The next table is recoverable gas in place, which
10 was the same information we submitted in the previous
11 hearing, and it shows that you're only going to recover
12 approximately 37 percent of the recoverable gas in place
13 for that quarter section.

14 And the last table is the estimation of remaining
15 recoverable gas, which is basically recoverable gas minus
16 the two producing wells, and that's around 900 million
17 cubic foot in the quarter section.

18 Q. Is the recompletion of the A 27 well necessary in
19 order to adequately recovery Dakota reserves in this
20 section?

21 A. Yes.

22 Q. And were Exhibits 2, 3, 4 and 5 prepared by you
23 or under your supervision --

24 A. Yes.

25 Q. -- or compiled from company business records?

1 In your opinion, is the granting of this
2 Application in the interest of conservation and the
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I'd move the admission
6 of Exhibits 2 through 5.

7 EXAMINER STOGNER: Exhibits 2, 3, 4 and 5 will be
8 admitted into evidence at this time.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. Voigt, I believe Mr. Bruce was asking the
12 previous examiner -- I'm sorry, the previous witness, about
13 the Number 27 and its plans on completion. It's a Morrison
14 at this point. Of course, it's being recompleted as a
15 Dakota.

16 A. Yes.

17 Q. Will the Morrison be plugged and abandoned?

18 A. It will be abandoned, and the Dakota will be
19 produced, and within a few years if we see that the
20 pressures have come down on the Dakota we'll consider
21 commingling the two zones.

22 Q. So essentially temporarily abandoned?

23 A. Yes, temporarily abandoned.

24 Q. Now, when I refer to Exhibit Number 5 --

25 A. Yes.

1 Q. -- the estimated remaining recoverable gas, is
2 that with the Number 27 or just the Number 32 well?

3 A. That's just with the Number 32 well.

4 Q. And where will I find if the Number 27 -- what's
5 the estimated -- or do you have any numbers of potentially
6 unrecoverable reserves from the Number 27, if it was not
7 allowed to produce?

8 A. If it was not allowed to produce, the estimated
9 remaining recoverable gas, that last table --

10 Q. Yes.

11 A. -- is basically the recoverable gas minus what
12 the A 32 and the A 20, which is P-and-A'd, are going to
13 recover in that quarter section. So the remaining would be
14 900 million cubic that the A 27, if it weren't allowed to
15 produce, that would be the remaining gas --

16 Q. Okay.

17 A. -- in that quarter section.

18 Q. And just for the record, the Dakota gas is an
19 unprorated pool; is that correct? Not allocated, in other
20 words? There's no restriction on the production?

21 A. No.

22 Q. Okay.

23 MR. BRUCE: It is 160-acre spacing.

24 THE WITNESS: Yeah, it's 160-acre spacing
25 currently --

1 Q. (By Examiner Stogner) And that leads to the
2 necessity, because in an unprorated pool you can only have
3 one well.

4 A. Yeah.

5 Q. Unprorated doesn't mean unrestricted, so that's
6 how you -- how we simply regulate or establish the
7 conservation needs.

8 When was that number 20 P-and-A'd?

9 A. It was October of 2003.

10 Q. Any plans for any new wells in this area?

11 A. Not at that point.

12 Q. Working with the holes you have, in other words?

13 A. Correct.

14 Q. Okay. How about water production in any of these
15 zones? What are you seeing as far as water?

16 A. Small amounts, very little water. Maybe, you
17 know, half a barrel a day. I know some of the lower Dakota
18 sandstones, i.e., the Burro Canyon sandstones that we do
19 have in this area, you do see some water production from
20 those, but the Dakota itself you don't see really too much
21 water production, unless you get into the lower sands.

22 Q. So the completion is naturally flowing though?

23 A. Yes.

24 Q. No need of water or fluid pump-off?

25 A. No.

1 EXAMINER STOGNER: Are there any other questions
2 of this witness from anybody?

3 Thank you, Mr. Voigt, you may be excused.

4 Mr. Bruce, anything further?

5 MR. BRUCE: No, sir.

6 EXAMINER STOGNER: Again, I want to thank you for
7 coming to this particular kind of a case. It's whereas I
8 was leading up to the unprorated doesn't mean unrestricted,
9 and anything that happens here, I've got to look at it
10 through any kind of exception that is given at this point,
11 what kind of precedent does that set elsewhere? And I've
12 got to look at the rest of the whole state where we have a
13 lot of fee acreage, state acreage, or the combination of
14 the two.

15 So what may seem like a simple matter here where
16 nobody's getting hurt could set precedents somewhere else,
17 and that's what I have to contend with sometimes. So
18 again, I do appreciate XTO's patience in this and the
19 tribe's patience for this, but with these kind of cases and
20 taken into consideration.

21 And also what happens here could be utilized if
22 we ever want to infill drill some of the shallower gas in
23 the San Juan Basin that's already spaced on 160. This
24 could be taken into account of the necessity that exists
25 here, and that would be applied throughout the San Juan

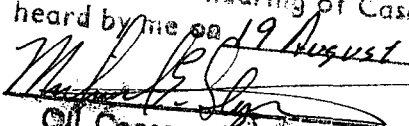
1 Basin. So bear that in mind if, in the future, infill
2 drilling becomes necessary or we have a hearing for infill
3 drilling for 160 in the northwest New Mexico.

4 Again, thank you.

5 And Case Number 13,327 will be taken under
6 advisement.

7 (Thereupon, these proceedings were concluded at
8 10:03 a.m.)

9 * * *

10
11
12
13 I do hereby certify that the foregoing is
14 a complete record of the proceedings in
15 the Examiner hearing of Case No. 13327
16 heard by me on 19 August 2004.
17  , Examiner
18 Oil Conservation Division
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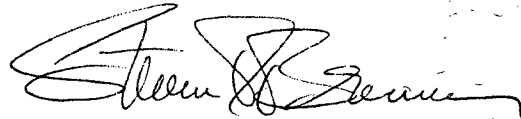
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 21st, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006