

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

5 APPLICATION OF XTO ENERGY, INC.
6 FOR POOL CONTRACTION, POOL EXPANSION
7 AND NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, SAN JUAN
COUNTY, NEW MEXICO.

CASE NO. 15020

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 July 12, 2013

12 Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 DAVID K. BROOKS, LEGAL EXAMINER
16 PHILLIP GOETZE, TECHNICAL EXAMINER

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, David K. Brooks, Legal Examiner, and
21 Phillip Goetze, Technical Examiner, on Friday, July 12,
2013, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis Drive,
Porter Hall, Room 102, Santa Fe, New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT XTO ENERGY, INC.:

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20 EXHIBITS OFFERED AND ADMITTED

21 XTO Energy, Inc. Exhibit Numbers 1A, 1B through 11

11

XTO Energy, Inc. Exhibit Numbers 12 through 16

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1 (9:11 a.m.)

2 EXAMINER EZEANYIM: Now we call Case Number
3 15020, application of XTO Energy, Inc. for pool
4 contraction, pool expansion and nonstandard spacing and
5 proration unit and compulsory pooling, San Juan County,
6 New Mexico.

7 Call for appearances.

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

11 EXAMINER EZEANYIM: Any other appearances?
12 Will witnesses stand up and state your name
13 and be sworn?

14 MR. ZIMMERMAN: Cy Zimmerman.

15 MR. MUSEKAMP: Charles Musekamp.

16 (Mr. Zimmerman and Mr. Musekamp sworn.)

17 CY ZIMMERMAN,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Zimmerman, where do you reside?

23 A. I reside in Fort Worth, Texas.

24 Q. Who do you work for?

25 A. XTO Energy.

1 Q. And what is your job with XTO?

2 A. I'm an associate landman.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

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

8 A. Yes.

9 Q. And does your area of responsibility at XTO
10 include this portion of northwest New Mexico?

11 A. Yes, it does.

12 Q. And are you familiar with the land matters
13 involved in this case?

14 A. Yes, I am.

15 MR. BRUCE: Mr. Examiner, I tender Mr.
16 Zimmerman as an expert petroleum landman.

17 EXAMINER EZEANYIM: Mr. Zimmerman is so
18 qualified.

19 Q. (BY MR. BRUCE) Mr. Zimmerman, would you please
20 identify Exhibit 1A?

21 A. Yes. Exhibit 1A is a C-102 which shows our
22 nonstandard unit in the Mancos Formation. It is
23 comprised of the north half of Section 16 and the
24 northeast quarter of Section 17 of Township 29 North,
25 Range 14 West, which is the project area for XTO's Ropco

1 16-1H well. The well is located in the
2 northeast-northeast quarter of Section 16, and then it
3 will be drilled south and to the west in the terminus of
4 the southwest-northeast quarter of Section 17.

5 Q. What pools are currently involved in this well
6 unit?

7 A. There are two pools. In the south half of the
8 northwest quarter of Section 16, there is the
9 ChaCha-Gallup pool, which is an oil pool spaced at 80
10 acres. The remaining acreage in the well unit is the
11 Basin Mancos pool, which is spaced on 320 acres.

12 Q. What does XTO seek in this case?

13 A. We seek to contract the ChaCha-Gallup pool by
14 removing the south half of the northwest quarter of
15 Section 16 and expand the Basin Mancos pool by adding
16 that 80 acres. That way all the acreage in the well
17 unit will be on one pool to satisfy the terms of Order
18 R-13714. And we also seek approval of the nonstandard
19 unit and point of all interests in the nonstandard unit.

20 Q. And the order you just mentioned, R-13714,
21 denied pooling because there were two different pools in
22 the project area, correct?

23 A. That is correct.

24 Q. If you look at the other acreage in Sections 16
25 and 17, who is the primary working interest?

1 A. XTO owns or controls that acreage, so nobody's
2 being excluded from the well unit due to land ownership.

3 Q. I refer you to Exhibit 1B, and could you
4 discuss any other reasons for the nonstandard unit?

5 A. Yes. Exhibit 1B is an aerial photo of the well
6 unit. As you can see, we're placing the well near an
7 existing well site located in the northeast-northeast
8 quarter of Section 16, and it's also near the highway,
9 which minimizes surface disturbance.

10 In addition to drilling the well as we
11 propose, it will allow us to access reserves without
12 disturbing farmland and residential area.

13 Q. And the residential area is more into Section
14 17?

15 A. That is correct.

16 Q. And where the surface location is, it looks
17 like it is somewhat hilly, so there is no farming on
18 that land either?

19 A. That is correct. Yes.

20 Q. What is the working interest ownership in the
21 well unit? And I refer you to Exhibit 2.

22 A. Exhibit 2 is Exhibit A to the JOA. It lists
23 the interest owners in the well and their working
24 interest percentages.

25 Q. Who do you seek to pool?

1 A. We seek to pool the two unleased mineral owners
2 that are listed at the bottom of Exhibit A. It's the
3 State Highway Department and West American Corporation,
4 and they own fee minerals in the northeast quarter of
5 Section 17.

6 Q. What about the other parties of the JOA?

7 A. The other parties to the JOA, they've either
8 signed the JOA, or we've entered into a term assignment.

9 Q. Could you summarize your contacts with the
10 parties being pooled?

11 A. Yes. First, West American Corporation is
12 unlocatable. The records of the Public Regulation
13 Commission show that its corporate charter was revoked
14 in 1958. When Lance Oil & Gas Company drilled the
15 Fruitland Coal and Pictured Cliffs wells in 2004 and
16 2005, in Section 17, it tried to locate the company, and
17 it found out that it had filed for bankruptcy. And
18 there are also no known successors.

19 Q. What about the Highway Department?

20 A. The Highway Department, we sent a proposal
21 letter, marked as Exhibit 3. We sent that on March
22 11th, 2013. And I also followed up with the e-mail
23 marked as Exhibit 4, and I then called and spoke to the
24 Department's attorney. And they were not interested in
25 joining or leasing the well, so they told us to go ahead

1 and force pool them. And they also were force pooled in
2 2005 by Lance Oil & Gas Company.

3 Q. In your opinion, has XTO made a good-faith
4 effort to obtain the voluntary joinder of the interest
5 owners in the well?

6 A. Yes, we have.

7 Q. And would you identify Exhibit 5 and discuss
8 the cost of the well?

9 A. Yes. Exhibit 5 is the AFE for the well. The
10 well has an estimated dry-hole cost of approximately
11 2,775,000 and a completed well cost of about 3,746,000,
12 totaling around 6,521,000.

13 Q. And are these costs in line with the cost of
14 other horizontal wells drilled in northwest New Mexico?

15 A. Yes, they are.

16 Q. Do you request that XTO be appointed operator
17 of the well?

18 A. Yes.

19 Q. Do you have a recommendation of the overhead
20 rates?

21 A. Yes. We request that \$10,000 a month be
22 allowed for drilling the well and \$1,000 a month be
23 allowed for producing the well, which matches our JOA,
24 in which the other working interest owners signed off
25 on.

1 Q. And are these amounts equivalent to those
2 normally charged by XTO in this area?

3 A. Yes, it is. It's what we used in the two
4 previous horizontal wells that we drilled earlier this
5 year.

6 Q. Do you request that these rates be adjusted
7 periodically as provided by the COPAS accounting
8 procedure?

9 A. Yes.

10 Q. And do you request that the costs -- the
11 maximum cost plus 200-percent risk charge for the
12 interest owners who have nonconsent in the well?


13 A. Yes.

14 Q. Were the parties being pooled notified of this
15 hearing?

16 A. Yes. Exhibit 6 is an Affidavit of Notice to
17 the Highway Department, and on the next page, Exhibit 7,
18 is the Affidavit of Publication from the Farmington
19 paper regarding West American.

20 Q. And as to the nonstandard unit, who was
21 notified?

22 A. Exhibit 8 is a list of interest owners in the
23 northwest quarter of Section 17. We notified these
24 parties, as shown on Exhibits 9 and 10 on the following
25 pages.



1 Q. Now, you notified the northwest quarter of
2 Section 17. Conceivably, the well could, I suppose, be
3 extended over to that, but as to other acreage
4 surrounding your proposed nonstandard project area, who
5 is the operator?

6 A. XTO is.

7 Q. As to contracting the ChaCha-Gallup pool, who
8 is the mineral owner of the south half of the northwest
9 quarter of Section 16?

10 A. That would be state land, and XTO is the
11 lessee. And we gave notice to the Land Office, as shown
12 on Exhibit 11.

13 Q. Were Exhibits 1 through 11 prepared by you or
14 under your supervision or compiled under company
15 business records?

16 A. Yes.

17 Q. And in your opinion, is the granting of this
18 application in the interest of conservation and the
19 prevention of waste?

20 A. Yes.

21 Q. And, for example, if we can't get this
22 accomplished, there would be no way to join West
23 American in the well unit?

24 A. Correct. They're not locatable.

25 Q. Not locatable.

1 Thank you.

2 MR. BRUCE: Mr. Examiner, I'd move the
3 admission of Exhibits 1 through 11.

4 EXAMINER EZEANYIM: Exhibits 1 through 11
5 will be admitted.

6 (XTO Energy Exhibit Numbers 1 through
7 11 were offered and admitted into
8 evidence.)

9 MR. BRUCE: And I have no further questions
10 of the witness.

11 EXAMINER EZEANYIM: Mr. Brooks?

12 EXAMINER BROOKS: No questions.

13 EXAMINER EZEANYIM: Mr. Goetze?

14 EXAMINER GOETZE: No questions of this
15 witness.

16 EXAMINER EZEANYIM: We talked about DOT.
17 Does the DOT own any mineral interests? Sometimes you
18 mentioned DOT. DOT is an agency, at least to the Oil
19 Conservation Division. So what's going on there?

20 MR. BRUCE: Mr. Examiner, if you look at
21 Exhibit 1B, you can see that there are streets and
22 highways going through Sections 16 and 17. And when the
23 government either acquired rights-of-way for these
24 highways -- and I think mainly what we're looking at is
25 Highway 64. It was done by the state, and sometimes

1 they bought easements; sometimes they condemned them.
2 Sometimes when they got the easement, there was actually
3 a deed, and they conveyed the minerals under the
4 highway. And so the State Highway Department owns
5 little bits and pieces of minerals.

6 I've had to force pool them several times
7 in Eddy County, up in Colfax County, places like that,
8 and they have never responded to any lease offer or any
9 other thing. They just refuse to do anything. I don't
10 know why. They could get a better deal if they would
11 lease.

12 And under state law, it's not treated like
13 the Land Commissioner. You can't force pool the Land
14 Commissioner. But this is treated, essentially, as fee
15 land, which is why we're pooling.

16 EXAMINER EZEANYIM: Oh, okay.

17 CROSS-EXAMINATION

18 BY EXAMINER EZEANYIM:

19 Q. Okay. Let's talk about ownership in those two
20 sections. I know you mentioned -- what's your name
21 again?

22 A. Cy Zimmerman.

23 Q. Zimmerman. Okay.

24 In Sections 16 and 17, can you describe the
25 nature of the land ownership?

1 A. Yes. XTO is primarily the working interest
2 owner in the south half of Section 16 --

3 MR. BRUCE: North half.

4 A. -- the north half of Section 16 and also the
5 northeast quarter.

6 Q. (BY EXAMINER EZEANYIM) And your working
7 interest is in the north half of Section 16, right?

8 A. Correct.

9 Q. And then, obviously, the north half of 17?


10 A. Correct.

11 Q. You don't own anything in the south half of the
12 section?

13 A. We have some working interest in the south
14 half. In both sections, we're primarily the interest
15 owner.

16 Q. My question is: You know the Mancos -- you are
17 going to deplete that ChaCha-Gallup. Presume you
18 deplete it. You deplete it, and then you go to the
19 Basin-Mancos, and the Basin-Mancos is developed in the
20 320. And you can't drill your horizontal gas well on
21 the 320. I just want to know. Is this because of the
22 land, geology or engineering that you added that quarter
23 section to the 320 in Section 17?

24 A. I believe it's because we wanted to maximize
25 our leasehold interest and to maximize with the



1 intervals that we're going or the length of the
2 wellbore. That's why we chose this project area.

3 Q. What do you mean by maximize the leasehold
4 interest?

5 A. To where we don't have to add on more acreage
6 within the well unit. You know, we'll -- to shorten the
7 project area, we are able to maximize our leasehold
8 interest in the wellbore.

9 Q. So you are saying -- you are a land person,
10 right?

11 A. Yes, sir.

12 Q. And you are saying it's because of a land
13 issue, so not really geology or anything else?

14 A. Well, there might be -- our geologist can
15 testify as to why there are geology reasons.

16 There is an existing well pad that we
17 wanted to use in the northeast-northeast of Section 16.

18 Q. I understand that.

19 A. And so we wanted to be able to use that one,
20 and that's why we chose that surface location. And
21 that's primarily the reason.

22 Q. Yeah, I know. I know you have an interest.
23 You have the right to drill where you want to drill, but
24 I want to determine the exact reason why you want to do
25 that. Don't get me wrong. Any operator has, you know,

1 the right to drill where they want, but the manner of
2 the drilling is where I come in. And that's why I'm
3 asking this question, to determine whether -- what you
4 are doing is best by engineering, land or geology. And
5 if I can get that, that would help in determining what
6 to do.

7 The standard unit is 320 in the
8 Basin-Mancos, and if the standard unit is 320 -- I know
9 you are outside that, I know. That has nothing to do
10 with what we're talking about. But if you can drill
11 that 320, it seems like -- I mean, I don't know. Since
12 you own an interest in both sections -- you own in
13 Section 16 and Section 17, so maybe -- I don't know --
14 you have a geologist in here who can say why you want to
15 do that, so we can begin to look at it.

16 You say it's because of the land, but now
17 we need to evaluate that situation on whether it's
18 engineering or geology-wise --

19 A. Okay.

20 Q. -- because all we're looking at to be able to
21 explore the most hydrocarbons, the most -- project from
22 those things, and how do we do it in an orderly manner.
23 That's what we're doing, you know. And that's why --
24 the operators and the OCD, because the operator -- if I
25 were you, I would do what you're doing. But if you're

1 in my shoes, you would do what I'm doing. Okay? So
2 don't get me wrong. I'm trying to ask all these
3 questions because I want to know how best to exploit
4 these minerals to be a win-win situation for everybody.

5 A. Okay. And I'll --

6 Q. You understand why I'm asking the question?

7 A. Yes, sir, I do. And our engineer's not here
8 right now, and I can get back with you at a later date
9 regarding the engineering reasons.

10 Q. You don't have any -- you have a geologist, but
11 no engineer?

12 MR. BRUCE: Mr. Examiner, we do have a
13 geologist. And I would state that we did have an
14 engineer at the prior hearing to discuss these matters,
15 and I would refer you to Case -- I forget the case
16 number, but the one that resulted in Order R-13714, and
17 you did question the engineer about the engineering
18 reasons.

19 EXAMINER EZEANYIM: In this general area?

20 MR. BRUCE: This ~~specific~~ well unit. 

21 EXAMINER BROOKS: It was the same well?

22 EXAMINER GOETZE: We're back again.

23 EXAMINER EZEANYIM: Oh, the same well.

24 MR. BRUCE: Same well.

25 EXAMINER EZEANYIM: Why are we here, then?

1 MR. BRUCE: Mr. Examiner, in the order I
2 mentioned, the Division denied pooling --

3 EXAMINER EZEANYIM: Huh?

4 MR. BRUCE: The Division denied pooling --
5 because there were two different pools in the well unit.

6 EXAMINER EZEANYIM: Right.

7 MR. BRUCE: I don't agree, but, regardless,
8 that's what the Division did.


9 EXAMINER BROOKS: That's what I did.

10 MR. BRUCE: So now we've got to go back --
11 I told you I could cause problems by myself,
12 Mr. Examiner.

13 EXAMINER EZEANYIM: Now you are refreshing
14 my memory, because we get a bunch of these things.

15 MR. BRUCE: It was two months ago, and
16 there was an engineer. And you can go back and look at
17 that transcript, but our geologist can adequately
18 describe why the wellbore traverses this particular
19 line.

20 EXAMINER EZEANYIM: That's what I want to
21 hear. And I'll be interested in getting out of here and
22 reading that other testimony in this particular case.

23 EXAMINER BROOKS: It's not the same case
24 number, but you have the order number. You can find the
25 case. 

1 MR. BRUCE: This well, this exact well.

2 EXAMINER BROOKS: Same one.

3 EXAMINER EZEANYIM: Okay. Now, if pooling
4 is granted, is it from the surface of the Mancos?

5 MR. BRUCE: Just the Maneos.

6 EXAMINER EZEANYIM: You may step down.

7 MR. BRUCE: Just one question,

8 Mr. Zimmerman.

9 CONTINUED DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Mr. Ezeanyim did ask you about mineral owners.

12 If Section 16 includes the underlying mineral owners --

13 A. XTO.

14 Q. No, no. The mineral owner of the fee --

15 A. Oh. The state.

16 Q. The State of New Mexico?

17 A. Uh-huh.

18 Q. And in the northeast quarter of Section 17,
19 what type of land is that?

20 A. Fee.

21 Q. Okay. Thank you.

22 EXAMINER EZEANYIM: So 16 is state land,
23 and 17 is fee?

24 MR. BRUCE: Yes.

25

1 CHARLES MUSEKAMP,

2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Musekamp, could you spell your name for the
7 court record and the Examiner?

8 A. My last name?

9 Q. Yes.

10 A. That's M, as in Mary, U-S-E-K-A-M, as in Mary,
11 P, as in Paul, Musekamp.

12 Q. Mr. Musekamp, who do you work with and in what
13 capacity?

14 A. XTO Energy in Fort Worth, Texas. I am the
15 geologist in the Rocky Mountain region.

16 Q. Have you previously testified before the
17 Division?

18 A. Yes.

19 Q. And were your credentials as a petroleum
20 geologist accepted as a matter of record?

21 A. Yes.

22 Q. Are you familiar with the geology involved in
23 this application?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I tender

1 Mr. Musekamp as an expert petroleum geologist

2 EXAMINER EZEANYIM: So qualified.

3 Q. (BY MR. BRUCE) Mr. Musekamp, tell the Examiner
4 why you want to drill -- why XTO chose this
5 particular-shape wellbore for this well. First of all,
6 could you identify Exhibit 12?

7 A. This is a location map of Township 29 North, 14
8 West, around Sections 16 and 17. It shows our wellbore
9 trajectory going towards the west. S-H stands for
10 surface hole, and B-H stands for bottom hole. Also,
11 shown are offset wells. Those shown in yellow are
12 Gallup producing wells.

13 Q. And that particular zone that those Gallup
14 producing wells produce from is what you're attempting
15 to duplicate in the Ropco 16-1 well?

16 A. Yes.

17 Q. Let's move on to your type log, Exhibit 13.

18 EXAMINER EZEANYIM: Let me clarify one
19 thing on this map. The yellow dots are -- which ones
20 are producing from the Mancos?

21 THE WITNESS: Gallup is a formation within
22 the whole Mancos interval, so Gallup is technically a
23 Mancos producer.

24 EXAMINER EZEANYIM: This is very confusing.

25 THE WITNESS: For me, too.

1 EXAMINER EZEANYIM: I don't know which one
2 is which.

3 THE WITNESS: The nomenclature is very
4 confusing.

5 EXAMINER EZEANYIM: So those yellow are
6 producing from where this well is going to be produced
7 from?

8 THE WITNESS: Correct.

9 EXAMINER EZEANYIM: But when you said the
10 Gallup, you're talking Basin-Mancos. Then you are
11 talking about the Gallup. So it is confusing.

12 THE WITNESS: Yes.

13 Q. (BY MR. BRUCE) Mr. Musekamp, on this plat, are
14 there any Basin-Mancos wells?

15 A. These are ChaCha-Gallup wells.

16 Q. Right. Okay.

17 EXAMINER EZEANYIM: No Basin-Mancos here?

18 THE WITNESS: No.

19 EXAMINER EZEANYIM: That is what you call
20 the Gallup pool?

21 THE WITNESS: Correct.

22 MR. BRUCE: Well, that's what the Division
23 calls it.

24 EXAMINER EZEANYIM: Yeah. We use them
25 interchangeably, right?

1 MR. BRUCE: Yeah. Under the -- I forget
2 the order numbers. Everything outside the ChaCha-Gallup
3 is Basin-Mancos.

4 EXAMINER BROOKS: Or 12984.

5 (Laughter.)

6 EXAMINER EZEANYIM: You wrote it. That's
7 why you say that.

8 EXAMINER BROOKS: Well, not just because I
9 wrote it, but there are other reasons why I remember it
10 (laughter).

11 Q. (BY MR. BRUCE) Let's move on to your type log,
12 and maybe we can discuss for Mr. Ezeanyim a little
13 further the specific zone you're looking to test in the
14 Ropco 16-1 well, and what these other Gallup wells have
15 tested. And going back a little bit, what is the
16 vintage of these Gallup wells?

17 A. Vintage, '50s, '60s.

18 Q. They were drilled quite sometime ago?

19 A. Yeah, before my vintage.

20 Q. Go ahead with the type log.

21 A. The type log is the Kirtland State 1 in the
22 southwest quarter of the northwest quarter of Section
23 16. It's just southwest of our wellbore, if you look
24 down on the location map to the left. On the right,
25 it's a type log. Gamma ray curve on the left-hand side;

1 resistivity curve on the right-hand side. And if you
2 look approximately at 4,675, you'll see a nice yellow
3 sandstone developed. It's about six feet in thickness.
4 It's called the Tocito interval, and that is the target
5 we will be targeting.

6 Q. And then move on to Exhibit 14.

7 A. Exhibit 14 is -- this is a two-part exhibit.
8 Exhibit 14 is an A to A prime, west to east
9 stratigraphic cross section. It's just south of our
10 wellbore, as you can see.

11 The following page is that stratigraphic
12 cross section. It's hung on the upper Gallup marker.
13 It's the first marker you see on that cross section.
14 And you can see that this sandstone, the target
15 interval, is laterally continuous across the area, and,
16 again, that is the target we are choosing.

17 Q. And when you're looking at these wells, in
18 particular the Kirtland State, that well was marginally
19 productive, correct?

20 A. Yes. Uh-huh.

21 EXAMINER EZEANYIM: Which well?

22 MR. BRUCE: The middle one, Mr. Examiner.

23 EXAMINER EZEANYIM: Oh, you're looking at
24 the wells now.

25 MR. BRUCE: The cross section.


1 EXAMINER EZEANYIM: Okay.

2 Q. (BY MR. BRUCE) And that well is the one that
3 was located on that 80 acres that you seek to move from
4 one pool to the other, correct?

5 A. Correct.

6 Q. What is Exhibit 15?

7 A. Exhibit 15 is a structure map. It's a 25-foot
8 subsea structure map on top of one of the Gallup markers
9 shown on the type log. You can see it's about a one,
10 one-and-a-half degree dip towards the west.

11 Q. And does XTO prefer to have the bottom-hole
12 location updip from the surface location? 

13 A. Correct.

14 Q. And let's move on to your final exhibit. You
15 have a production bubble map at Exhibit 16. Could you
16 discuss that briefly?

17 A. This is a production bubble map of the
18 surrounding Gallup wells. Green is oil. Red is gas.
19 And the bubbles are scaled to the amount of oil
20 produced. The numbers in green next to each well is the
21 cumulative oil production. The numbers in black next to
22 each well is the cumulative gas production.

23 You can see that we're trying to maximize
24 the length of our wellbore by going horizontally in
25 these two sections, as well as getting as close to these

1 producers as we can to maximize our production.

2 Q. So you wouldn't want to be drilling down to the
3 south and the north parts of 20 and 21, would you, at
4 this point, because they have produced substantial
5 amounts already?

6 A. Right. Right. Correct.

7 Q. But you would like to be near them -- somewhat
8 near them?

9 A. Correct.

10 Q. From a geologic standpoint, will each quarter
11 section in the well unit more or less contribute to
12 production?

13 A. Yes.

14 Q. Regarding the request to excise 80 acres from
15 the ChaCha-Gallup pool, I think you already answered
16 this, but are there any geologic differences in the
17 productive portion of the ChaCha-Gallup in Section 16
18 and the Basin-Manco^s in the rest of the acreage?

19 A. No. The geology is very homogeneous. It's
20 very consistent across this area.

21 Q. If the acreage was removed, would you ever
22 recommend to -- if the ChaCha-Gallup pool wasn't
23 contracted, would you ever recommend to XTO's management
24 to drill a vertical Gallup well in that 80 acres or even
25 a 80-acre horizontal well?

1 A. No.

2 Q. Based on the original well on that acreage, it
3 looks like it would be a waste of money.

4 A. Subeconomic.

5 Q. Were Exhibits 12 through 16 prepared by you or
6 under your direction?

7 A. They were prepared by me.

8 Q. And in your opinion, will the granting of this
9 application be in the interest of conservation and the
10 prevention of waste?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 12 through 16.

14 EXAMINER EZEANYIM: Exhibits 12 through 16
15 will be admitted.

16 (XTO Energy Exhibit Numbers 12 through 16
17 were offered and admitted into evidence.)

18 MR. BRUCE: No further questions of the
19 witness.

20 EXAMINER EZEANYIM: Do you have any
21 questions?

22 EXAMINER BROOKS: No questions.

23 EXAMINER GOETZE: Just one question.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. On your thickness of you're a, what's your
4 average thickness you're looking at?

5 A. Six to eight feet thickness.

6 Q. Six to eight feet. And that's consistent
7 across there?

8 A. It gets thicker as you go towards the south,
9 approximately 15 to 20 feet, as you get in the gut of
10 that ChaCha-Gallup pool.

11 Q. No other questions. Thank you.

12 CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. Since you don't have your engineer here, let's
15 look at geology, because you say you added a quarter
16 section. I want to know really whether the quarter
17 section is supposed to be added to that 320. You are
18 the land person, so you are going to answer the
19 question.

20 So the question I want to ask is why we
21 added that quarter section to the 320. I know I'm going
22 to read the other case that was on this, that I'm going
23 to read. I haven't read it. But I want to hear from
24 you, as the geologist, why we wanted -- okay. Now, we
25 can see that formation is very thin, six to eight feet.

1 So is this six to eight feet across given that bond --
2 or that variation from Section 16 to Section 17?


3 A. It'll vary somewhat, but on average, it'll be
4 six to eight feet across the wellbore trajectory. The
5 thickness, like I said before, decreases as you get to
6 the north, so we are looking at six to eight feet.

7 Q. So if we were to drill the holes, how would
8 that -- you couldn't drill the 320. You have to drill
9 the 480. I want to know why you want to drill that 480
10 as opposed to -- you know, I asked the land person, and
11 he told me you were going to answer that question. So I
12 wanted to know why we added that quarter section there
13 to make the 480.

14 A. From a geologist --

15 Q. He said he's land. Because, you know, he's a
16 land person. All he has to do is go: I'm working for
17 XTO; my land is 480. Then you, as the geologist, are
18 the one who is going to convince me that that 480 is
19 really well worth to be drilled, because I'm looking at
20 the variability of that section -- of those sections.
21 Ownership is not identical. There are a lot of working
22 interests in there. I know you did your public notice,
23 but I wanted to see from the geology and engineering --
24 unfortunately, there is no engineer here to tell me
25 anything. But from the geology, I want you to convince

1 the Division why we added that quarter section.

2 A. ~~We're trying to maximize~~ our production to make
3 this -- make this well economical. So to add another
4 section, we'll get more feet per horizontal, adding more
5 production and making this well economical. 

6 Q. Did you do any calculation to demonstrate that?

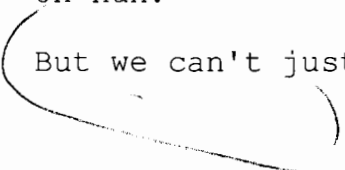
7 A. The engineer has.

8 Q. Who did?

9 A. The engineer, reservoir engineer.

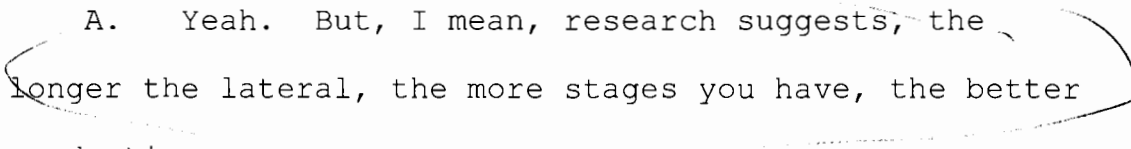
10 Q. If you can convince me now that if you drill
11 320, you are going to lose money, but if you drill 480,
12 you're going to make money and demonstrate the
13 calculations, whatever you are going to expect in this
14 formation, we might start looking at it.

15 A. Uh-huh.

16 Q. But we can't just make the decision in a
17 vacuum. 

18 A. Right.

19 Q. You see the point I'm trying to make?

20 A. Yeah. But, I mean, research suggests, the
21 longer the lateral, the more stages you have, the better
22 production. 

23 Q. I understand that. Yeah, I do understand that.

24 A. Uh-huh.

25 Q. And, again, I understand 320 is a long lateral.

1 That's one mile, right?

2 A. Uh-huh.

3 Q. You added another half mile to that, making it
4 480. I know you can do that, but now if we do that, I'm
5 concerned about the movement of ^{development} the acreage around the
6 area.

7 A. Repeat your question. I'm sorry. ^{development}

8 Q. I mean, I'm concerned about the movement of the
9 acreage around your -- the one you are developing.
10 Ownership is not identical, so other applicants will
11 have to come here. I want to know how they are going to
12 drill the areas around, you know, the 480 acreage. You
13 are trying to let OCD form a project area of 480. So I
14 want to understand why the operator wants to do that so
15 that we can begin to consider the information. Is it
16 land? Is it geology? Is it engineering? And we can
17 take all of them into consideration and make a
18 recommendation.

19 A. Uh-huh.

20 Q. Don't get me wrong. I'm not being hard on you.
21 I'm just trying to do my job to make sure we do it
22 right. We have to see all the development of this area.
23 You have the right to drill, because you own interest
24 there, but now that's why we are here, to make sure we
25 do it right.

1 A. I understand.

2 Q. I have looked at the geology. The geology has
3 demonstrated the formation is very thin, and I don't
4 know how much you can get out of that. I don't have any
5 calculations to demonstrate that when you cross that
6 section boundary, you're going to get more. Of course,
7 I know longer laterals produce more than short laterals.
8 A one-mile lateral is long. This is gas. And two miles
9 is okay, you know. Three miles, you can do that. But
10 the question is: How do you do it? Do you just do it
11 and violate other people's correlative rights?

12 EXAMINER EZEANYIM: Counselor, I'm sorry
13 you didn't bring the engineer. I have to go back and
14 read that previous case.

15 MR. BRUCE: Mr. Examiner --

16 EXAMINER EZEANYIM: I wanted to listen to
17 the engineer tell me why.

18 MR. BRUCE: I believe you asked those
19 questions the last time, which is why we didn't bring
20 her back. But I would point out that all of Mr.
21 Musekamp's map, if you look -- and I will ask him a
22 question.

23 Q. (BY MR. BRUCE) Is the yellow acreage the
24 acreage which XTO owns or operates?

25 A. Yeah, operates.

1 MR. BRUCE: So, Mr. Examiner, when you're
2 talking about -- first of all, this is the first well
3 out here, and as Mr. Musekamp said, they want to
4 maximize the recovery, and that was gone into at the
5 last hearing.

6 EXAMINER EZEANYIM: I understand that.

7 MR. BRUCE: Well, Mr. Examiner, it's my
8 point that that's enough, and they have testified about
9 it.

10 But if you look at the operatorship, XTO
11 owns or operates all of the offsetting acreage. They're
12 not out to mess up their own development. They operate
13 all offsetting acreage. They're not here to mess up
14 their own development plans.

15 So I guess I'm kind of getting frustrated
16 because the Division rules allow you to apply for a
17 nonstandard unit. At the last hearing and this hearing,
18 we have testified that they hope to maximize recovery by
19 extending the wellbore, and that has been testified to
20 at numerous horizontal wells in the southeast part of
21 the state.

22 And, you know, you might be offended, you
23 know, if some Operator X owned the offsetting acreage
24 and they were being excluded. Nobody is being excluded
25 for any land reason or any other purpose in this matter.

1 If XTO is successful in this well, I'm sure they will
2 develop offsets, but you've got to get the first well
3 drilled.

4 EXAMINER EZEANYIM: Yeah, Counselor, I
5 understand what you're saying. Yes, the rule says that.
6 The rule says that you can form that standard -- yeah,
7 you can form it. But if you want me -- if you want us
8 to compulsory pool it, that's a different thing. If you
9 formulate [sic] everybody participates in drilling the
10 well, you shouldn't be here. But now you are asking the
11 Division to compulsory pool that nonstandard project
12 area.

13 MR. BRUCE: And Mr. Musekamp has stated
14 that the reservoir is pretty -- is six to eight feet
15 across the entire length of the wellbore, and that's
16 what they're looking to get. If that's the case and
17 that's what his geology shows, you know, then the
18 wellbore will be similar in each quarter section. And I
19 just -- I guess I'm kind of getting frustrated at this
20 point.

21 EXAMINER EZEANYIM: You don't have to get
22 frustrated, but you didn't bring your engineer to answer
23 those questions. I wanted to take into consideration
24 whether those -- all those units contribute equally to
25 the well.

1 MR. BRUCE: And I would ask that the
2 administrative record from -- I forget the case number,
3 but that Order R-13714 be adopted into the record. And,
4 like I said, this is the second time we've been through
5 this.

6 EXAMINER EZEANYIM: 13714?

7 MR. BRUCE: Yes.

8 EXAMINER EZEANYIM: And then you had your
9 engineer here that day?

10 MR. BRUCE: Yes.

11 EXAMINER EZEANYIM: I mean, we do a lot of
12 these; I can't have it in my head.

13 MR. BRUCE: Well, I understand that,
14 Mr. Examiner. I have a hard time remembering these
15 cases, too, but we did have an engineer here last time
16 to answer all of your questions.

17 EXAMINER EZEANYIM: Okay. I will look at
18 that.

19 Do you have anything?

20 EXAMINER GOETZE: I have no more questions.

21 EXAMINER BROOKS: I would like to ask more
22 questions. Do you have any questions?

23 EXAMINER GOETZE: No. I'll pass.

24 EXAMINER BROOKS: I thought of something.

25 CROSS EXAMINATION

1 BY EXAMINER BROOKS:

2 Q. What was the reason why this well was not
3 extended into the northwest quarter since XTO owns that
4 also, northwest quarter of 17?

5 A. Based off interest, perhaps.

6 Q. Not a geologic reason, then?

7 A. Not from a geology perspective, no.

8 Q. I assume there is some limitation. You
9 expressed the proposition that the longer you drill the
10 lateral, the more efficiency you get, because, of
11 course -- and that makes sense, because if you end at
12 330 from the western boundary of 660 -- 660 from the
13 western boundary of Section 16 and then you didn't start
14 the next one, 660 eastern boundary of 17, you'd be
15 losing 1,280 feet of horizontal penetration.

16 A. Uh-huh.

17 Q. That makes sense. But, of course, there is
18 some limit to it because you can't -- it's not economic
19 to drill horizontals beyond some point.

20 A. Right.

21 Q. And my impression is of the industry that
22 length is getting longer, but it's not infinite. So I
23 was wondering if that was the reason you stopped at the
24 middle of Section 17 or -- but as the geologist argued,
25 really, or told us, it's not a geologic --

1 A. Right.

2 EXAMINER EZEANYIM: So you might want to
3 use the engineer, because it's not a land question. We
4 already know the land. So whenever you come here, bring
5 your engineer.

6 Any more questions?

7 EXAMINER BROOKS: No more questions.

8 EXAMINER EZEANYIM: Anything further,
9 Counselor?

10 MR. BRUCE: No, sir.

11 EXAMINER EZEANYIM: At this point, Case
12 Number 15020 will be taken under advisement.

13 (Case Number 15020 concludes, 9:50 a.m.)

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I hereby certify that the foregoing
is a true and correct record of the proceedings at
the hearing of Case No. 15020
dated 7/12/13
[Signature] Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

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

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

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

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