

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:

APPLICATION OF XTO ENERGY, INC. CASE NO. 15663  
FOR A NONSTANDARD SPACING AND  
PRORATION UNIT, AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

Consolidated with

APPLICATION OF XTO ENERGY, INC. CASE NO. 15664  
FOR A NONSTANDARD SPACING AND  
PRORATION UNIT, AND COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 30, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER  
WILLIAM V. JONES, TECHNICAL EXAMINER  
MICHAEL McMILLAN, TECHNICAL EXAMINER  
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, Phillip Goetze,  
Chief Examiner, William V. Jones and Michael McMillan,  
Technical Examiners, and David K. Brooks, Legal  
Examiner, on Thursday, March 30, 2017, at the New Mexico  
Energy, Minerals and Natural Resources Department,  
Wendell Chino Building, 1220 South St. Francis Drive,  
Porter Hall, Room 102, Santa Fe, New Mexico.

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

1 APPEARANCES

2 FOR APPLICANT XTO ENERGY, INC.:

3 JORDAN L. KESSLER, ESQ.  
 4 HOLLAND & HART  
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25

1 (11:00 a.m.)

2 EXAMINER GOETZE: Case Number 15663,  
3 application of XTO Energy, Inc. for a nonstandard  
4 spacing and proration unit and compulsory pooling, Eddy  
5 County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,  
8 from the Santa Fe office of Holland & Hart, on behalf of  
9 the Applicant.

10 And I'd also asked that this case be  
11 consolidated with Case Number 15664.

12 EXAMINER GOETZE: Very good. We shall  
13 consolidate with Case Number 15664.

14 Are there any other appearances for these  
15 two cases?

16 MS. KESSLER: Two witnesses.

17 EXAMINER GOETZE: Would the two witnesses  
18 identify themselves to the court reporter, and she shall  
19 swear you in.

20 MS. REPKA: Angie Repka.

21 MR. HENTHORN: Brian Henthorn.

22 (Ms. Repka and Mr. Henthorn sworn.)

23 MS. KESSLER: I'll call my first witness,  
24 Mr. Examiner.

25

1 ANGIE REPKA,

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

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Please state your name for the record and tell  
7 the Examiners by whom you're employed and in what  
8 capacity.

9 A. Angie Repka, division landman of XTO Energy.

10 Q. Have you previously testified before the  
11 Division?

12 A. Yes.

13 Q. And were your credentials as a petroleum  
14 landman accepted and made a matter of record?

15 A. Yes.

16 Q. Are you familiar with the applications filed in  
17 these consolidated case?

18 A. Yes, I am.

19 Q. And are you familiar with the status of the  
20 lands in the subject area?

21 A. Yes.

22 Q. Ms. Repka, could you identify what XTO seeks in  
23 this consolidated hearing?

24 A. XTO seeks to form two nonstandard proration  
25 units covering 320 acres each in the Bone Spring

1     Formation.

2           **Q.     And do you seek to pool the interests in each**  
3     **of those spacing units?**

4           A.     Yes.

5           **Q.     As to the Bone Spring Formation?**

6           A.     As to the Bone Spring, yes.

7           **Q.     Let's turn to Exhibit 1.**

8                   EXAMINER GOETZE:   Before we get into  
9     technicalities, can you also qualify your witness?

10                  MS. KESSLER:   I would tender Ms. Repka as  
11     an expert in petroleum land matters.

12                  EXAMINER GOETZE:   She is so accepted.  
13                  Please go into your exhibits.

14           **Q.     (BY MS. KESSLER) If you could please turn to**  
15     **Exhibit 1 and identify this exhibit for the Examiner.**

16           A.     Exhibit 1 is the C-102 filed for the Corral  
17     Canyon Federal 13H well.

18           **Q.     Does this create a 320-acre spacing unit in the**  
19     **west half-west half of Sections 8 and 17?**

20           A.     Yes, it does.

21           **Q.     Would that be Township 25 South, Range 29 East**  
22     **in Eddy County?**

23           A.     Yes.

24           **Q.     What is the API number for this well?**

25           A.     3001543493.

1           Q.    And what is Exhibit 2?

2           A.    Exhibit 2 is the C-102 for the Corral Canyon  
3   Federal 13H well.

4           Q.    This is also for a 320-acre spacing unit?

5           A.    Yes.  It's in the east half of the west half of  
6   Sections 8 and 17.

7           Q.    What's the API number for this well?

8           A.    3001543474.

9           Q.    Has the Division identified a pool and pool  
10   code for both of these wells?

11          A.    Yes, the Willow Lake-Bone Spring, Southeast,  
12   and the pool code is 96217.

13          Q.    Is that pool governed by Division statewide  
14   rules for oil wells?

15          A.    Yes.

16          Q.    40-acre spacing, 330-foot setbacks?

17          A.    Yes.

18          Q.    Will the completed intervals for each of these  
19   two wells comply with statewide setback requirements?

20          A.    Yes, they will.

21          Q.    Are these portions of Sections 8 and 17 federal  
22   lands?

23          A.    Yes, they are.

24          Q.    Is Exhibit 3 an ownership tabulation  
25   identifying XTO's interest and uncommitted interest

1 owners for the 13H well?

2 A. Yes, it is.

3 Q. Have you highlighted the interest that XTO  
4 seeks to pool here?

5 A. Yes, we have.

6 Q. What is Exhibit 4?

7 A. Exhibit 4 is the ownership tabulation for the  
8 Corral Canyon Federal 14H well.

9 Q. And, again, you've highlighted the interest  
10 owners whom you seek to pool?

11 A. Yes.

12 Q. Do the proposed spacing units overlap with  
13 project areas for existing Devon wells?

14 A. Yes, they do.

15 Q. Is Exhibit 5 a copy of four C-102s for the  
16 Devon Slider wells?

17 A. Yes, it is.

18 Q. And these show that the various Slider wells  
19 are dedicated to the south half of Section 8; is that  
20 correct?

21 A. That's correct.

22 Q. Are these Slider wells within the same pool as  
23 the current proposed wells?

24 A. Yes, they are.

25 Q. Do you know the regulatory history for these

1     **slider wells?**

2           A.     I do not.

3           **Q.     Are they oil wells?**

4           A.     Yes.

5           **Q.     But they are permitted for -- the first three**  
6 **wells are permitted for 320 acres; is that correct?**

7           A.     Yes.

8           **Q.     But they only developed three 40-acre spacing**  
9 **units?**

10          A.     Correct.

11          **Q.     Who is the operator of these wells?**

12          A.     Devon Energy.

13          **Q.     Did Devon retain their interest in the**  
14 **formation to XTO?**

15          A.     Yes, covering the south half of Section 8.

16          **Q.     But did they retain ownership of these four**  
17 **wellbores?**

18          A.     Yes, they did.

19          **Q.     Were they provided notice of this hearing?**

20          A.     Yes, they were.

21          **Q.     And are they aware of the overlapping spacing**  
22 **units?**

23          A.     Yes, they are.

24          **Q.     Did they have any objection to those**  
25 **applications?**



1 A. No.

2 Q. Do you understand that your allowable for the  
3 project area for each of your two wells will be  
4 curtailed by the production from the existing Devon  
5 wells?

6 A. Yes.

7 Q. To the extent that they overlap, correct?

8 A. Yes. Correct.

9 Q. Is Exhibit 6 a copy of an exemplar of a  
10 well-proposal letter you sent to the working interest  
11 owners for the 13H well?

12 A. Yes, it is.

13 Q. On what date was this letter sent?

14 A. January 24th of 2017.

15 Q. And did it include an AFE?

16 A. Yes, it did.

17 Q. Is Exhibit 7 a copy of the -- an example copy  
18 of the well-proposal letter sent for the 14H well?

19 A. Yes, it is.

20 Q. This was sent to all working interest owners?

21 A. Yes.

22 Q. And did it also include an AFE?

23 A. Yes, it did.

24 Q. Looking at the AFE, are the costs reflected on  
25 these two AFEs consistent with what XTO and other

1 operators charge in the area for similar Bone Spring  
2 wells?

3 A. Yes, they are.

4 Q. And does your proposal letter identify the  
5 overhead and administrative costs that XTO seeks for  
6 each of these two wells?

7 A. Yes. We seek 7,500 for drilling, 750 for  
8 producing.

9 Q. Are these rates also consistent with what  
10 operators in the area charge for similar wells?

11 A. Yes, they are.

12 Q. Do you ask that those administrative costs be  
13 incorporated into any order resulting from this hearing?

14 A. Yes.

15 Q. And do you ask that it be adjusted in  
16 accordance with the COPAS accounting procedures?

17 A. Yes.

18 Q. For any of the uncommitted interest owners, are  
19 you requesting that the Division impose a 200 percent  
20 risk penalty?

21 A. Yes.

22 Q. In addition to sending well-proposal letters,  
23 what other efforts did you undertake to reach an  
24 agreement with the parties that you are seeking to pool?

25 A. I've had numerous phone calls and emails and

1 even the physical meeting with some of the interest  
2 owners.

3 Q. Are you working on agreements with some of  
4 those operators?

5 A. Yes, we are.

6 Q. Did you publish notice of this hearing?

7 A. Yes.

8 Q. And is that because you did not receive a green  
9 card back for RLF [sic]?

10 A. Yes.

11 Q. But you did have conversations --

12 A. Yes, I have.

13 Q. And did XTO identify the offset operators or  
14 lessees of record and include them in notice of this  
15 hearing?

16 A. Yes, we did.

17 Q. Is Exhibit 9 an affidavit prepared by my office  
18 providing notice and a copy of the application to the  
19 parties that you seek to pool and also the offset  
20 operators or lessees of record?

21 A. Yes, it is.

22 Q. Were Exhibits 1 through 7 compiled under your  
23 direction and supervision?

24 A. Yes, they were.

25 MS. KESSLER: Mr. Examiner, I would move

1 admission of Exhibits 1 through 9, which includes my two  
2 affidavits.

3 EXAMINER GOETZE: Exhibits 1 through 9 so  
4 entered.

5 (XTO Energy Exhibit Numbers 1 through 9 are  
6 offered and admitted into evidence.)

7 MS. KESSLER: That concludes my  
8 examination.

9 EXAMINER GOETZE: Thank you.

10 CROSS-EXAMINATION

11 BY EXAMINER GOETZE:

12 Q. Good morning.

13 A. Good morning.

14 Q. First off, this is a Federal Com that we're --

15 A. Yes.

16 Q. And it's a portion of a much larger plan that  
17 you have with the BLM --

18 A. Yes.

19 Q. -- for development?

20 So how much general acreage are we looking  
21 at as far as in the area?

22 A. Roughly, 5- -- 5,000 acres, approximately.

23 Q. Okay. So this is not just one or two sections?

24 A. No, it's not.

25 Q. Okay. The discussion with Devon sharing the

1     **same area as you folks, is your geologist --**

2                   EXAMINER GOETZE:  I'll just question you  
3     (indicating).  You're going to have a discussion on  
4     that?

5                   MR. HENTHORN:  Yes.

6           Q.     **(BY EXAMINER GOETZE) What I would like to have**  
7     **is a copy of your agreement with Devon as far as**  
8     **assignment.**

9           A.     Okay.

10          Q.     **And you can redact it to whatever, if you've**  
11     **got monies involved.  We want to see that you do have an**  
12     **agreement with them in place and make it part of the**  
13     **record --**

14          A.     Okay.

15          Q.     **-- just for our comfort.  That's all.  So you**  
16     **can send that in.**

17                   MS. KESSLER:  What agreement is that?

18                   EXAMINER GOETZE:  Well, the assignment  
19     of --

20                   THE WITNESS:  The assignment where they  
21     reserve the wellbores?

22                   EXAMINER GOETZE:  Yeah.  Yeah.  Just so we  
23     have it as record and we note in testimony that it's --  
24     that it's supported with an exhibit.  So send it to us  
25     via e-mail.

1 MS. KESSLER: Okay.

2 EXAMINER GOETZE: That's my other request.

3 Q. (BY EXAMINER GOETZE) So our first and last take  
4 points are set so we're within the 330 setbacks, outside  
5 of it?

6 A. Yes. Yes.

7 Q. Now, at this point -- this is very thorough --  
8 I have no more questions for you.

9 A. Okay.

10 MS. KESSLER: Call our next witness.

11 EXAMINER GOETZE: Very good. Thank you.

12 THE WITNESS: Thank you.

13 BRIAN HENTHORN,

14 after having been previously sworn under oath, was  
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MS. KESSLER:

18 Q. Please state your name for the record and tell  
19 the Examiners by whom you're employed and in what  
20 capacity.

21 A. Brian Henthorn. I'm employed by XTO Energy as  
22 a regional geologist.

23 Q. Have you previously testified before the  
24 Division?

25 A. I have.

1           Q.    Were your credentials as a petroleum geologist  
2   accepted and made a matter of record?

3           A.    Yes.

4           Q.    Are you familiar with the two applications  
5   filed in these consolidated cases?

6           A.    Yes, I am.

7           Q.    And have you conducted a geologic study of the  
8   lands that are the subject of this application?

9           A.    Yes.

10                   MS. KESSLER:  Mr. Examiner, I'd tender  
11   Mr. Henthorn as an expert in petroleum geology

12                   EXAMINER GOETZE:  So qualified.

13           Q.    (BY MS. KESSLER) Mr. Henthorn, please turn to  
14   Exhibit 10.  Is this an area locator map of the subject  
15   area?

16           A.    Yes.  This is an area map posting Willow  
17   Lake-Bone Spring, Southeast pool producers.  They've  
18   been color-coded by target interval.  The red  
19   bottom-hole location symbols represent 2nd Bone Spring  
20   Sandstone producers, and the blue represent Avalon Shale  
21   producers.  The two subject wells are identified by the  
22   callouts, the Corral Canyon Federal 13H and 14H located  
23   in the west half of Section 18 -- or Sections 8 and 17.

24           Q.    And if we look at Section 8, does that show the  
25   four Devon Slider wells?

1           A.     Yes.

2           Q.     Those are the wells with which we are sharing  
3     an allowable; is that correct?

4           A.     Yes.

5           Q.     Does this map show that the four Devon wells  
6     are Avalon producers, and our two subject wells will be  
7     Bone Spring -- 2nd Bone Spring producers?

8           A.     2nd Bone Spring producers, yes.

9           Q.     Is Exhibit 11 a structure map of the subject  
10    acreage?

11          A.     Yes.

12          Q.     What does this map show us?

13          A.     It's a structure map on the base of the 2nd  
14    Bone Spring Sandstone, subsea TVDs, with a 40-foot  
15    contour interval. The dip of this formation is a little  
16    less than 1 degree down to the east. Also shown here is  
17    a north-south cross section A to A prime.

18          Q.     And what is the target interval for this well?

19          A.     The 2nd Bone Spring Sandstone.

20          Q.     Have you identified the structure in this  
21    section as posing any geologic hazards for drilling  
22    horizontal wells?

23          A.     The structure shouldn't pose any hazards.  
24    We're drilling them on strike.

25          Q.     Okay. What is Exhibit 12?



1           A.     Exhibit 12 is that north-south A to A prime  
2     three-well cross section covering the area of the  
3     subject wells.  It's over the 2nd Bone Spring.  The top  
4     of the 2nd Bone Spring is labeled by the upper green  
5     line, and the base of the 2nd Bone Spring Sandstone is  
6     labeled by the bottom blue line.  Our target interval at  
7     TVD of approximately 8,600 feet is labeled with the red  
8     arrow.

9           Q.     That would be the target for both wells?

10          A.     That's correct.

11          Q.     I'm sorry.  Go ahead.

12          A.     We're showing triple combo logs across the  
13     area, modern log suites, and within the target interval,  
14     the porosities are very consistent across this area.

15          Q.     Do you believe that this area can be  
16     efficiently and economically developed by two-mile  
17     wells?

18          A.     Yes.

19          Q.     And in your opinion, will each of the  
20     nonstandard units, on average, contribute more or less  
21     equally to production from the well?

22          A.     Yes.

23          Q.     And the completed interval for each of these  
24     two wells will comply with the statewide setbacks; is  
25     that correct?

1           A.     That's correct.

2           Q.     What's the timing for each of these two wells?

3           A.     We anticipate spudding the first of these two  
4     in May.

5           Q.     Will you submit to the Division a proposed  
6     order for each of these two pooling hearings?

7           A.     Yes.

8                     MS. KESSLER:   If the Division so requires.

9                     EXAMINER GOETZE:   Hmm.

10          Q.     (BY MS. KESSLER) And in your opinion, is the  
11     granting of XTO's application in the best interest of  
12     conservation, for the prevention of waste and for the  
13     protection of correlative rights?

14          A.     Yes.

15          Q.     Were XTO Exhibits 10 through 12 compiled by you  
16     or under your direction and supervision?

17          A.     Yes.

18                    MS. KESSLER:   Mr. Examiner, I'd move  
19     admission of Exhibits 10 through 12.

20                    EXAMINER GOETZE:   Exhibits 10 through 12  
21     are so entered.

22                    (XTO Energy Exhibit Numbers 10 through 12  
23     are offered and admitted into evidence.)

24                    EXAMINER GOETZE:   So to drift back to your  
25     comment, a pooling order, are we talking about as in our

1 pools?

2 MS. KESSLER: Forced pooling, Mr. Examiner.

3 EXAMINER GOETZE: Oh. Just wondered,  
4 because I see here an issue with regards to Avalon  
5 versus Bone Spring, and that's something we also have to  
6 consider internally.

7 CROSS-EXAMINATION

8 BY EXAMINER GOETZE:

9 Q. First of all, the yellow on your maps, that's  
10 your acreage, or is that the --

11 A. That's our acreage.

12 Q. Okay. And are you anticipating further  
13 development of 2nd Bone when Bone Spring is part of this  
14 obligation? So what I'm saying is we're establishing a  
15 pattern based upon these two wells and will probably  
16 carry them on through using the same type of geometry --

17 A. That's correct.

18 Q. -- that north-south is going to be your  
19 preferential orientation?

20 A. Yeah. Yeah. We plan more north-south 2nd Bone  
21 Spring horizontals in this area.

22 Q. And these are two-milers for completion. What  
23 kind of staging? Are you just doubling the number, or  
24 have we got a new design planned?

25 A. There will be plug and perms, and I'm not

1     aware -- I don't know the exact stage numbers, but it'll  
2     be double what a one-section lateral will do. So I'm  
3     not -- I don't know how many stages we're going to have.

4           **Q.     Okay. That's fine. But you plan to complete**  
5     **it all in one --**

6           A.     We're going to complete it all in one. It'll  
7     be, you know, somewhere over 1,500 pounds per foot type  
8     of completion.

9           **Q.     But you're not going to do one mile and then do**  
10    **another one?**

11          A.     No. We're going to do it all at once. We'll  
12    likely frac both of them at the same time.

13          **Q.     Both wells?**

14          A.     Yeah. Or in succession.

15          **Q.     Yeah, I understand.**

16                   Based upon the number of acres involved,  
17    does XTO plan to come back and get a change of  
18    allocation? Is that something you foresee?

19                   MS. KESSLER: That's something that we've  
20    potentially discussed.

21                   REDIRECT EXAMINATION

22    BY MS. KESSLER:

23           **Q.     Mr. Henthorn, to follow up on those Slider**  
24    **wells, are you aware of the production, approximately,**  
25    **that those four wells are producing?**

1           A.     Yes, I am.   These Avalon Shale wells were  
2   drilled and completed in a 2010 time period in an  
3   interval about 400 feet above our target in the 2nd Bone  
4   Spring.   Production has come down on those  
5   significantly.   January average rates for the four wells  
6   combined was 7 barrels of oil per day and 100 mcf per  
7   day for all four wells collectively.

8 EXAMINER GOETZE: And you're looking at a  
9 higher occurrence of oil as opposed to gas from the 2nd  
10 Bone Spring?

11 THE WITNESS: From the 2nd Bone Spring,  
12 yes.

13 EXAMINER GOETZE: I have no further  
14 questions of this witness, and the guest Examiner does  
15 not either.

16 MS. KESSLER: Mr. Examiner, ask that these  
17 cases be taken under advisement with the understanding  
18 that we will supplement the record with your requested  
19 information.

20 EXAMINER GOETZE: I appreciate that. Thank  
21 you.

22 Case Numbers 15663 and 15664 are taken  
23 under advisement.

24 THE WITNESS: Thank you.

25 (Case Numbers 15663 and 15664 conclude.)

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

20

21

22 MARY C. HANKINS, CCR, RPR  
23 Certified Court Reporter  
24 New Mexico CCR No. 20  
25 Date of CCR Expiration: 12/31/2017  
Paul Baca Professional Court Reporters