

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:

ORIGINAL

CASE 15389

APPLICATION OF XTO ENERGY, INC., FOR
A NON-STANDARD SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 1, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
MICHAEL McMILLAN, EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Michael McMillan, Examiner, and Gabriel
Wade, Legal Examiner, on October 1, 2015, 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: ELLEN H. ALLANIC
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PAUL BACA COURT REPORTERS
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A P P E A R A N C E S

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I N D E X

CASE NUMBERS 15389 CALLED

XTO ENERGY INC. CASE-IN-CHIEF:

WITNESS ANGIE REPKA

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WITNESS BRIAN HENTHORN

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1 (Time noted 10:39 a.m)

2 EXAMINER JONES: Let's call case 15389,
3 Application of XTO Energy, Inc., for a non-standard
4 spacing and proration unit and compulsory pooling in
5 Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: May it please the Examiner,
8 I'm Jordan Kessler from Holland and Hart for the
9 applicant.

10 EXAMINER JONES: And the applicant is XTO
11 Energy. Any other appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa
13 Fe representing Nadel and Gussman Permian, LLC. I do
14 not have any witnesses.

15 EXAMINER JONES: Any other appearances in
16 this case?

17 MS. KESSLER: Mr. Examiner, I have two
18 witnesses today.

19 EXAMINER JONES: So, Mr. Bruce, I see an
20 entry here but no prehearing statement?

21 MR. BRUCE: Correct.

22 EXAMINER JONES: Okay. Will the witnesses
23 please be sworn by the court reporter.

24 (WHEREUPON, the presenting witnesses
25 were administered the oath.)

1 ANGIE REPKA

2 having been first duly sworn, was examined and testified
3 as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

6 Q. Ms. Repka, would you please state your name for
7 the record and tell the Examiner by whom you are
8 employed and in what capacity.

9 A. My name is Angie Repka and I work for XTO Energy,
10 Inc., as a Division landman.

11 Q. And have you previously testified before the
12 Division?

13 A. Yes, I have.

14 Q. Were your credentials as a petroleum landman
15 accepted and made a matter of record?

16 A. Yes, they were.

17 Q. Are you familiar with the application that's been
18 filed in this case?

19 A. Yes, I am.

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

22 A. Yes, I am.

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

25 EXAMINER JONES: She is so qualified.

1 I'm sorry, Mr. Bruce. Do you have any
2 objections?

3 MR. BRUCE: No, I have absolutely no
4 objections.

5 Q. (By Ms. Kessler:) Please turn to Exhibit 1 and
6 identify this exhibit and explain what XTO seeks under
7 this application.

8 A. Exhibit 1 is the form C-102 filed for the Golden
9 Corral 6 State 1H Well. And this is for a non-standard
10 spacing and proration unit, encompassing the east half
11 of the east half of section 6 of 25 south, 29 east, and
12 the east half of the north east quarter of section 31,
13 24 south, 29 east, comprising 239.47 acres.

14 And we seek to pool the noncommitted mineral
15 interests in the Bone Spring Formation.

16 Q. What is the API number for this well?

17 A. 30-015-43251.

18 Q. Has the Division identified a pool and pool code?

19 A. Yes. It is in the pool Willow Lake; Bone Spring,
20 southeast, Pool Code No. 96217.

21 Q. Is this pool governed by the Division's statewide
22 oil rules?

23 A. Yes, it is.

24 Q. So 330-foot setbacks?

25 A. Yes.

1 Q. Will the completed interval for this well comply
2 with the setback requirements?

3 A. Yes, it will.

4 Q. Are sections 6 and 31 all state lands?

5 A. Yes, they are.

6 Q. Turning to Exhibit 2, does this exhibit identify
7 XTO's interest in the uncommitted interest owners in the
8 proposed spacing unit?

9 A. Yes, it does.

10 Q. And what are the names highlighted in yellow?

11 A. They are the four uncommitted parties. We
12 actually have an election to participate by Khody Land &
13 Minerals Co. But they have not executed a joint
14 operating agreement, so we've left them on there.

15 Q. Is Exhibit 3 a copy of the well proposal letter
16 that was sent to the parties whom you seek to pool?

17 A. Yes, it is.

18 Q. On what date was that letter sent?

19 A. July 20th of 2015.

20 Q. And did it include an AFE?

21 A. Yes, it did.

22 Q. Did you subsequently become aware of an error in
23 the well proposal letter?

24 A. Yes, I did.

25 Q. What was that error?

1 A. We incorrectly cited the Third Bone Spring
2 Formation when this well was actually going to be a
3 Second Bone Spring test.

4 Q. Did you send a subsequent well proposal letter?

5 A. Yes, I did.

6 Q. Is a copy of that letter included as Exhibit 4?

7 A. Yes, it is.

8 Q. You mentioned that the well proposal letters
9 included an AFE; is that correct?

10 A. Yes, it is correct.

11 Q. Are the costs reflected on the AFE consistent
12 with what XTO and other operators have incurred in
13 drilling similar horizontal wells in the area?

14 A. Yes, they are.

15 Q. And did the initial well proposal letter identify
16 overhead and administrative costs?

17 A. Yes, it did.

18 Q. What are those costs?

19 A. They are \$7,500 a month for drilling and \$750 a
20 month for producing.

21 Q. Are the overhead rates consistent with what other
22 operators are charging for similar wells?

23 A. They are, yes.

24 Q. Do you ask that these administrative and overhead
25 costs be incorporated into any order resulting from this

1 hearing?

2 A. Yes, we do.

3 Q. And do you ask that it be adjusted in accordance
4 with appropriate accounting procedures?

5 A. Yes, we do.

6 Q. For the uncommitted interest owners, do you ask
7 the Division impose a 200 percent risk penalty?

8 A. Yes, we do.

9 Q. In addition to the well proposal letters, what
10 other efforts did XTO undertake to reach agreement with
11 the parties whom you seek to pool?

12 A. We have done follow-up e-mails and telephone
13 calls.

14 Q. And are you involved in ongoing negotiations with
15 Nadel and Gussman?

16 A. Yes, we are.

17 Q. And in the event that you reach agreement with
18 Nadel and Gussman, will any agreement supersede the
19 Division hearing order?

20 A. Yes, it will.

21 Q. Were all of the parties whom you seek to pool
22 locatable?

23 A. They were not.

24 Q. Did you publish notice directed to the
25 unlocatable party?

1 A. Yes, we did.

2 Q. And is that included as Exhibit 5?

3 A. Yes, it is.

4 Q. Did XTO also identify the offset operators or
5 lessees of record in the 40-acre tracts surrounding the
6 proposed non-standard spacing unit?

7 A. Yes, we did.

8 Q. And were those operators or lessees included in
9 notice of this hearing?

10 A. Yes, they were.

11 Q. Is Exhibit 6 an affidavit prepared by my office
12 with attached letters providing notice of this hearing
13 to the affected parties?

14 A. Yes, it is.

15 Q. And were Exhibits 1 through 4 prepared by you or
16 compiled under your direction and supervision?

17 A. Yes, they were.

18 MS. KESSLER: Mr. Examiner, I move the
19 admission of Exhibits 1 through 6.

20 EXAMINER JONES: Objection?

21 MR. BRUCE: No objection.

22 EXAMINER JONES: Exhibits 1 through 6 are
23 admitted.

24 (XTO Energy, Inc., Exhibits 1 through 6 were
25 offered and admitted.)

1 EXAMINER McMILLAN: Are you trying to
2 (inaudible) pool the entire Bone Spring?

3 EXAMINATION BY EXAMINER JONES

4 THE WITNESS: Yes.

5 EXAMINER JONES: And Khody just hasn't
6 signed the JOA?

7 THE WITNESS: Correct. They have executed
8 the AFE and signed their well proposal letter, but no
9 JOA.

10 EXAMINER JONES: Is the JOA bigger than the
11 well unit?

12 THE WITNESS: No, it is not.

13 EXAMINER JONES: The terms must not be
14 acceptable.

15 THE WITNESS: I don't know. They have not
16 countered with anything, so...

17 EXAMINER JONES: We see Khody on a lot of
18 land ownership here. It must be a pretty big company,
19 mainly land company, is that --

20 THE WITNESS: Khody and RK Exploration are
21 now a part of WPX.

22 EXAMINER JONES: Okay. When did that
23 happen?

24 THE WITNESS: The last I spoke with them,
25 they said they are a wholly-owned subsidiary of WPX now.

1 It's about a month, I believe.

2 EXAMINER JONES: Did we identify the
3 different tracts here -- as far as inside the compulsory
4 pooling, are there -- this is a state well, so is all
5 state or --

6 THE WITNESS: Yes.

7 EXAMINER JONES: So it's multiple state
8 leases involved?

9 THE WITNESS: Yes.

10 EXAMINER JONES: Are they similar royalty
11 burdens?

12 THE WITNESS: Yes, they are.

13 EXAMINER JONES: And are these sections
14 irregular? Is section 6 irregular? Are there any lots
15 involved --

16 THE WITNESS: There are. Section 6 has the
17 lots across the top and down the west side.

18 EXAMINER JONES: So lot 1 would be part of
19 your well unit?

20 THE WITNESS: Yes.

21 EXAMINER JONES: But section 31 is a
22 standard section?

23 THE WITNESS: Correct.

24 EXAMINER JONES: And this well is going to
25 be all standard for location setbacks?

1 THE WITNESS: (Witness nodding head.)

2 EXAMINER JONES: Do you consider that you
3 made a good faith effort to obtain joinder of these
4 parties?

5 THE WITNESS: Yes, I do.

6 EXAMINER JONES: Okay.

7 EXAMINER WADE: I have no questions.

8 EXAMINER JONES: Are you going to agree to
9 let Mr. Bruce ask questions?

10 MR. BRUCE: I am not going to ask any
11 questions.

12 EXAMINER JONES: Are you here in opposition?

13 MR. BRUCE: No.

14 EXAMINER JONES: I figured you'd be loaded
15 for bear if you were.

16 MR. BRUCE: No. I think they are trying to
17 work out a deal with my client, Mr. Examiner.

18 EXAMINER JONES: Okay. Thank you very much.

19 BRIAN HENTHORN

20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Would you please state your name for the record
25 and tell the Examiners by whom you are employed and in

1 what capacity.

2 A. My name is Brian Henthorn and employed by XTO
3 Energy as a geologist.

4 Q. Have you previously testified before the
5 Division?

6 A. I have.

7 Q. And were your credentials as an expert in
8 petroleum geology accepted and made a matter of record?

9 A. They were.

10 Q. Are you familiar with the application that has
11 been filed in this case?

12 A. I am, yes.

13 Q. And have you conducted a geologic study of the
14 lands that are the subject of this case?

15 A. I have.

16 MS. KESSLER: Mr. Examiner, I would tender
17 Mr. Henthorn as an expert in petroleum geology.

18 EXAMINER JONES: Any objection?

19 MR. BRUCE: No objection.

20 EXAMINER JONES: Mr. Henthorn is so
21 qualified.

22 Q. If you could turn to Exhibit 7 and identify this
23 exhibit for the Examiner.

24 A. This a subSea structure map on the Second Bone
25 Spring in the project area. The contour interval is

1 40 feet. The dip of the formation exhibits a general
2 dip to the east. XTO acreage is highlighted in yellow.
3 And the Second Bone Spring produced in permitted wells
4 are highlighted in red.

5 The subject well, the Golden Corral 6 State 1H,
6 is highlighted by the green dashed line.

7 And the line of section, the A to A Prime, by the
8 blue line.

9 Q. What can you identify with respect to the
10 structure in these two sections; do you believe it's
11 consistent?

12 A. It is consistent, yes.

13 Q. If you could turn to Exhibit 8. Please identify
14 this exhibit for the Examiners.

15 A. This is the line of section indicated on the
16 previous exhibit, A to A Prime, north to south;
17 stratigraphic cross section hung on the base of the
18 Second Bone Spring.

19 The three wells indicated are along the project
20 area of the proposed well. And the target interval in
21 the lower portion of the Second Bone Spring is
22 highlighted by the red arrow.

23 Q. Do you consider the wells used on this cross
24 section to be representative of wells in the area?

25 A. Yes. In fact, the right-hand well is only a few

1 hundred feet from our surface hole location, and the far
2 left-hand well is adjacent to the bottom hole location.

3 Q. What conclusions have you drawn based on your
4 geologic study of this area?

5 A. I should indicate that the top and the base of
6 the Second Bone Spring is at the green lines. There
7 isn't any major thickening or thinning of the Second
8 Bone Spring, and in the target interval the lower
9 portion, the log character and porosity is very
10 consistent throughout the area.

11 Q. Have you identified any geologic impediments to
12 developing this area using mile-and-a-half horizontal
13 wells?

14 A. No.

15 Q. And do you believe this area can be efficiently
16 and economically developed by horizontal wells?

17 A. Yes.

18 Q. And your opinion, will the non-standard unit, on
19 average, contribute more or less quickly to the
20 production of this well?

21 A. It will.

22 Q. And turning back to Exhibit 1.

23 A. Yes.

24 Q. Will the completed interval for this well comply
25 with the Division's setback requirements?

1 A. Yes. This is the C-102 plat. Indicated on the
2 plat are the first take point and the last take point of
3 the first and last perf for the well. And they are
4 inside the 330 setbacks.

5 Q. In your opinion, is the granting of XTO's
6 application in the best interests of conservation, for
7 the prevention of waste and the protection of
8 correlative rights?

9 A. Yes.

10 Q. And were Exhibits 7 and 8 prepared by you or
11 compiled under your direction and supervision?

12 A. They were.

13 MS. KESSLER: Mr. Examiner, I move into
14 evidence Exhibits 7 and 8.

15 EXAMINER JONES: Exhibits 7 and 8 are
16 admitted.

17 (XTO Energy, Inc., Exhibits 7 and 8 were
18 offered and admitted.)

19 MS. KESSLER: That concludes my
20 presentation.

21 EXAMINATION BY EXAMINER McMILLAN

22 EXAMINER McMILLAN: The question I have
23 relates back to Exhibit 7.

24 THE WITNESS: Yes, sir.

25 EXAMINER McMILLAN: Which have performed

1 better, north, south or east, west wells?

2 THE WITNESS: In this area, in this
3 formation east, west wells are very similar to north,
4 south wells, in this area, within the Second Bone Spring
5 in this area.

6 You can see an uplift in production if there
7 are larger fracs. So the more recent wells with larger
8 fracs -- either east, west or north, south -- do perform
9 better. But if all things are held equal, their
10 production is similar.

11 EXAMINER McMILLAN: So then what was driving
12 the north, south location?

13 THE WITNESS: Surface access, there's a
14 lease road along the southern portion of section 6 and
15 section 5, and to minimize surface use disturbance, we
16 placed all of our pads along that infrastructure along
17 that lease road.

18 EXAMINER McMILLAN: So it is close to Potash
19 or --

20 THE WITNESS: No. This is nearby the Pecos
21 River area. Section 5 is actually ACEC area and the
22 BLM. We have the adjacent section four and section five
23 areas. So we are planning a full development with wells
24 across all three of these sections.

25 So the lease road parallels the southern

1 line of section 5 into section 6. So that kind of
2 controlled the surface locations for these wells.

3 EXAMINATION BY EXAMINER JONES

4 EXAMINER JONES: This well will be wholly
5 owned on XTO acreage; is that correct? On Exhibit 7,
6 it's colored in yellow.

7 THE WITNESS: Yes.

8 EXAMINER JONES: So if you drill it the
9 other direction, you'd have to make deals with other
10 operators --

11 THE WITNESS: If we drilled it to the west,
12 you're saying?

13 EXAMINER JONES: Yes.

14 THE WITNESS: Yes, sir. We don't have any
15 interest in the southeast quarter of section 6, as far
16 as I know.

17 EXAMINER JONES: So surface hole is next to
18 P in section 6. And the mile and a half, is that
19 optimal out here, or --

20 THE WITNESS: Yes. We've actually --

21 EXAMINER JONES: -- what would you
22 recommend?

23 THE WITNESS: We have drilled in section 5
24 so far two 7,500-foot laterals and one 1-mile lateral.
25 And the 7,500-foot laterals appear to have a little bit

1 better production.

2 EXAMINER JONES: What about the Wolfcamp out
3 here? Are you looking at that also?

4 THE WITNESS: We actually have a Wolfcamp
5 well in this same unit area stacked below the subject
6 well, the Golden Child. And we are currently drilling a
7 Wolfcamp -- we have the Wolfcamp A well right now. We
8 are evaluating the Wolfcamp across this area.

9 EXAMINER JONES: Is there anything going to
10 be done during the completion to verify that all the
11 spacing units will contribute or to show you where the
12 oil and water is coming from?

13 THE WITNESS: We don't plan to do any
14 tracers, if that is what you are asking.

15 EXAMINER JONES: Does XTO still operate as a
16 wholly-owned subsidiary?

17 THE WITNESS: Yes, and we are a wholly-owned
18 subsidiary of ExxonMobil. We are the steward of their
19 assets that carried over to us from ExxonMobil.

20 EXAMINER JONES: Okay.

21 EXAMINER WADE: I have no questions.

22 EXAMINER JONES: Thank you very much.

23 EXAMINER McMILLAN: Thank you.

24 THE WITNESS: Thank you.

25 MS. KESSLER: Mr. Examiner, I ask that this

1 case be taken under advisement.

2 EXAMINER JONES: Case 15389 is taken under
3 advisement.

4 EXAMINER JONES: Let's take a 15-minute
5 break.

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(Time noted 11:15 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
 6

7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, October 1,
 11 2015, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

22
 23
 24
 25


ELLEN H. ALLANIC, CSR
 NM Certified Court Reporter No. 100
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