

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

**APPLICATION OF TEXAS STANDARD
OPERATING NM LLC FOR COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO**

Case No. 22525

MANZANO LLC'S MOTION TO STAY PROCEEDINGS

Manzano LLC ("Manzano") requests that the New Mexico Oil Conservation Division ("Division") stay this case until the Division has issued an Order in Case No. 22668. In support of this motion, Manzano states the following.

1. This case is currently set for a contested hearing on June 2, 2022, with testimony and exhibits due on May 26, 2022.

2. In its application, Texas Standard Operating NM LLC ("Texas Standard") seeks an order pooling all uncommitted interests in the Upper Penn Shale formation in a proximity tract horizontal spacing unit underlying the S/2 SW/4 of Section 9, the W/2 of Section 16, and the NW/4 of Section 21, Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico. Manzano owns 100% of the working interest in the NW/4 of Section 21 and opposes Texas Standard's application.

3. On January 26, 2021, the Division entered Order No. R-21572, approving the Vindicator Canyon State Exploratory Unit ("Unit"), consisting of 6,000 acres of State land located in Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico.

4. Manzano is the designated operator under the Unit Agreement. The unitized interval is the Canyon formation, at the stratigraphic equivalent of the interval between 11,678 feet and 12,202 feet as found on the sonic log for the Deep Sparkling Muddler 15 State #1 well (API

No. 30-025-22194) in Section 15, Township 17 South, Range 36 East, N.M.P.M., Lea County, New Mexico.

5. On April 29, 2021, the Division entered Order R-21572-A, approving the addition of 960-acres of State lands to the Unit. The expanded unit encompasses the following 6,960 acres, more or less, of State lands in Lea County:

TOWNSHIP 17 SOUTH, RANGE 36 EAST, N.M.P.M.

- Section 14: SW/4
- Section 15: All
- Section 20: All
- Section 22: All
- Section 23: S/2, NW/4
- Section 26: All
- Section 27: All
- Section 28: All
- Section 29: All
- Section 30: E/2
- Section 31: E/2, NE/4
- Section 32: N/2, SW/4
- Section 33: NE/4
- Section 34: E/2 E/2
- Section 35: All

6. In Case No. 22668, Manzano filed an application with the Division to amend Order No. R-21572-A to remove the E/2 of Section 30 and the E/2 NE/4 of Section 31 from the Unit and add all of Section 21 to the Unit.

7. The proposed amendment to Order No. R-21572-A would modify and expand the geographic area of the Vindicator Canyon State Exploratory Unit, for a net expansion of 240-acres. The expanded Unit would consist of approximately 7,200 acres.

8. As demonstrated in Case No. 22668, the New Mexico State Land Office has issued preliminary approval of the expansion.

9. A hearing was held in Case No. 22668 on April 7, 2022. Texas Standard did not enter an appearance, and during the hearing, no parties, including Texas Standard, objected to the

expansion of the Unit to include all of Section 21. *See* 4/7/22 Transcript of Proceedings, attached as Exh. A.

10. It is Manzano's understanding that Texas Standard intends to serve notice of an intent to operate its proposed well within Manzano's Unit. However, NMAC 19.15.15.12, which sets out Special Rules for Multiple Operators within a Spacing Unit, states: "No provision of 19.15.15 NMAC authorizes a producing well's operation within a...state exploratory unit by an operator other than the unit's designated operator except as provided by...state land office rules applicable to the unit." 19.15.15.12(E) NMAC. Further, 19.15.16.15(B)(6) NMAC states: "No horizontal spacing unit may be designated that lies partly within, and partly outside of, a state exploratory unit, or a federal exploratory unit or participating area if the horizontal spacing unit includes state trust lands, without the written consent of the commissioner of public lands."

11. A 6,960-acre State Exploratory Unit has already been approved in Order No. R-21572-A. Case No. 22668, which is currently under consideration, seeks to add the entirety of Section 21 to the Unit, and the State Land Office has issued preliminary approval of the expansion.

12. Should the Division amend Order No. R-21572-A to add Section 21 to the Vindicator Canyon State Exploratory Unit, Texas Standard's proposal to include the NW/4 of Section 21 within its proposed horizontal spacing unit is inconsistent with the regulations discussed above. It would also defeat the purpose of unitization, violate Manzano's correlative rights, and result in waste. Accordingly, Manzano should not be required to proceed to hearing on Texas Standard's application prior to the issuance of an order in Case No. 22525.

13. In an effort to conserve the parties' and the Division's resources, Manzano requests that the Division vacate the prehearing order and stay this case until the Division has issued an

order in Case No. 22668. At that time, Manzano will file appropriate motions or request a status conference in this case.

14. Counsel for Texas Standard and XTO Energy, Inc. were contacted regarding this motion. XTO takes no position, and counsel for Manzano was unable to ascertain the position of Texas Standard.

For the foregoing reasons, Manzano requests that the Division vacate the prehearing order and stay this matter until the Division issues an order in Case No. 22668.

Respectfully submitted,

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Certificate of Service

I hereby certify that on May 11, 2022, I caused a true and correct copy of the foregoing to be emailed to the following counsel of record.

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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 Monzano, LLC to amend
Order No. R-21572-A to Modify and
Expand the Geographic Area of the
Vindicator Canyon State Exploratory
Unit, Lea County, New Mexico

Case No. 22668

REPORTER'S TRANSCRIPT OF PROCEEDINGS

THURSDAY, APRIL 7, 2022

EXAMINER HEARING

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Esq. Hearing Examiner, John Garcia and Philip Goetze Technical Examiners, on Thursday, April 7, 2022, via Webex Virtual Conferencing Platform hosted by the New Mexico Energy, Minerals and Natural Resources Department

Reported by: Mary Therese Macfarlane
New Mexico CCR #122
PAUL BACA COURT REPORTERS
500 Fourth Street NW, Suite 105
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1 (Time noted 2:48 p.m.)

2 EXAMINER BRANCARD: With that I'll call case
3 22668, Manzano, LLC.

4 MR. FELDEWERT: May it please the examiner,
5 Michael Feldewert with the Santa Fe office of Holland and
6 Hart appearing on behalf of Monzano.

7 Good afternoon to you, Mr. Garcia and Mr.
8 Goetze, who I have not seen for some time.

9 EXAMINER GARCIA: He's gotten better looking,
10 don't you think?

11 MR. FELDEWERT: No doubt.

12 EXAMINER BRANCARD: Are there any other
13 interested persons for Case 22668, Vindicator Canyon?

14 Hearing none, Mr. Feldewert.

15 MR. FELDEWERT: A little bit of background.

16 This particular unit is comprised of state
17 lands and was initially approved under Order R-21572.
18 Subsequent to that approval the State Land Office actually
19 requested some modifications and additions to the unitized
20 area, which was brought before the Division and approved
21 under R-21572-A. We are now back again before the
22 Division to seek a further modification, again of the
23 geographic area of the unit.

24 And if you turn to page 38 of the .pdf, I
25 think that's the best depiction of what's going on. It's

1 the State Land Office approval letter. Yes, page 38 of
2 the .pdf.

3 And you will that see that what the company
4 is now able to do because of some exchanges of interest,
5 is they have now, or they seek to remove the east half of
6 Section 30 and east half of the northwest quarter of 31,
7 which is kind of on the edge of the unit from the unitized
8 area and add Section 21, which is kind of almost right in
9 the middle of the unit, or close to the middle of the
10 unit.

11 That removal and addition was going to
12 result in a net expansion of the unitized area by 240
13 acres.

14 We have provided the affidavit of Nick
15 McClellan, who has previously testified in both of these
16 prior cases, and he provides for you not only that
17 explanation and notes that it was as a result of some land
18 exchanges with another party or another working interest
19 owner, but in addition to that he provides to you now a
20 Revised Unit Agreement which is Exhibit A-1 to reflect the
21 contraction and expansion; he's provided an Exhibit A-2,
22 which is a revised unit outline which would be the exhibit
23 A to the unit, and then he has provided as Exhibit A-3 the
24 new Schedule of Ownership that results. And of particular
25 interest here, maybe a little unusual, you will see in

1 that Schedule of Ownership there is a Manzano group with
2 an asterisk. If you go towards the end of Exhibit A-3 you
3 will see an addendum or addition to that schedule which
4 actually lists various owners that fall within the Monzano
5 group. I think they structured it this way just to keep
6 the initial Exhibit B somewhat readable and a little bit
7 easier to understand. That's why you see these extended
8 pages in Exhibit A-3.

9 Then Exhibit A-4 is again an update to the
10 tract participation that would be utilized for this
11 amended unit.

12 And then the Exhibit A-5 provides what I
13 previously referenced, and that's the recent letter that
14 we received from the State Land Office giving preliminary
15 approval to this modification to the unitized area.

16 Exhibit B, as in boy, is an Affidavit of
17 Notice from my office confirming that Notice of this
18 hearing went out on the date of the letter to an interest
19 owner. The reason we did that is because this particular
20 interest owner was notified in both of the initial cases,
21 and so just to keep it clean we also notified them of this
22 additional change to the unit area.

23 So we ask that the Division simply amend
24 the existing Order, which is Order 21572-A, to reflect the
25 removal of that east half of Section 30 and the east half

1 of the northeast quarter of Section 31, and then adding
2 all of Section 21 to the unitized area.

3 EXAMINER BRANCARD: Thank you.

4 Mr. Garcia, questions?

5 EXAMINER GARCIA: Very simple question. I think
6 I have a lot to learn on units.

7 On page 38, the unit diagram, out of
8 curiosity, what's the red lines? Are those existing wells
9 that have been drilled?

10 MR. FELDEWERT: Let me get there real quick.

11 You know, good question. I would hazard a
12 guess that perhaps those are the initial obligation wells.
13 I'd have to check it. We would have to cross check that
14 with what's in the unit agreement, but that would be my
15 guess.

16 EXAMINER GARCIA: Thank you. I don't know if
17 it's material or not to follow up with, but I'm still
18 learning units. I will defer to Mr. Goetze.

19 EXAMINER BRANCARD: Mr. Goetze, any questions?

20 EXAMINER GOETZE: Thank you.

21 Other than just generally, the same parties
22 that originally formed this unit are still the same
23 participants, other than this acreage movement around,
24 so...

25 Same parties all the way around?

1 MR. FELDEWERT: Yeah. I think, though, as a
2 result of the acreage swap in Section 21 that there was
3 a -- I think a party that was removed.

4 EXAMINER GOETZE: Okay.

5 MR. FELDEWERT: So with that caveat, you're
6 correct.

7 EXAMINER GOETZE: And we're not changing our
8 development plan, this is more of a consolidation.

9 MR. FELDEWERT: Yeah. With the idea that it
10 makes it a little easier now to develop this unit area now
11 that we can kind of aggregate the blocks.

12 EXAMINER GOETZE: This kind of makes it look
13 like we will agree to anything, seeing how we have this
14 ugly little piece of land down there in 30 and 31, we
15 could have put a curved well on there. But no, this looks
16 like a better development.

17 No more questions.

18 MR. FELDEWERT: Thank you.

19 EXAMINER BRANCARD: I may have missed your
20 Notice discussion, Mr. Feldewert, but in the end you ended
21 up giving Notice to one party?

22 MR. FELDEWERT: Yeah. I think if you look at
23 the two initial cases, we gave Notice to two parties but
24 one of the parties is the one that swapped out the acreage
25 here and so is no longer at issue, but we ended up giving

1 Notice to that second party again just because they got
2 Notice the first time around.

3 I'm trying to remember. They may have been
4 one of the parties that were, you know, involved in some
5 of the acreage being excluded, as I recall. I'd have to
6 look at the record but I think that's why.

7 But just to keep it clean, since they were
8 notified on the first two cases it made sense to notify
9 them on the third case as well.

10 EXAMINER BRANCARD: Thank you.

11 Once again, are there any other interested
12 persons for Case 22668?

13 Hearing none, this case will be taken under
14 advisement.

15 MR. FELDEWERT: Thank you.

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1 STATE OF NEW MEXICO)

2 : ss

3 COUNTY OF TAOS)

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REPORTER'S CERTIFICATE

6

I, MARY THERESE MACFARLANE, New Mexico Reporter

7

CCR No. 122, DO HEREBY CERTIFY that on Thursday, April 7,

8

2022, the proceedings in the above-captioned matter were

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taken before me; that I did report in stenographic

10

shorthand the proceedings set forth herein, and the

11

foregoing pages are a true and correct transcription to

12

the best of my ability and control.

13

I FURTHER CERTIFY that I am neither employed by

14

nor related to nor contracted with (unless excepted by the

15

rules) any of the parties or attorneys in this case, and

16

that I have no interest whatsoever in the final

17

disposition of this case in any court.

18

19

/S/CCR/Mary Therese Macfarlane

20

MARY THERESE MACFARLANE, CCR

21

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