

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

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

7   APPLICATION OF XTO ENERGY, INCORPORATED       CASE NO. 15703  
8   FOR A NONSTANDARD SPACING AND PRORATION  
9   UNIT AND COMPULSORY POOLING, EDDY  
10   COUNTY, NEW MEXICO.

11                               REPORTER'S TRANSCRIPT OF PROCEEDINGS

12                               EXAMINER HEARING

13                               May 25, 2017

14                               Santa Fe, New Mexico

15   BEFORE:   SCOTT DAWSON, CHIEF EXAMINER  
16               PHILLIP GOETZE, TECHNICAL EXAMINER  
17               DAVID K. BROOKS, LEGAL EXAMINER

18               This matter came on for hearing before the  
19   New Mexico Oil Conservation Division, Scott Dawson,  
20   Chief Examiner, Phillip Goetze, Technical Examiner, and  
21   David K. Brooks, Legal Examiner, on Thursday, May 25,  
22   2017, at the New Mexico Energy, Minerals and Natural  
23   Resources Department, Wendell Chino Building, 1220 South  
24   St. Francis Drive, Porter Hall, Room 102, Santa Fe, New  
25   Mexico.

26   REPORTED BY:   Mary C. Hankins, CCR, RPR  
27                   New Mexico CCR #20  
28                   Paul Baca Professional Court Reporters  
29                   500 4th Street, Northwest, Suite 105  
30                   Albuquerque, New Mexico 87102  
31                   (505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT XTO ENERGY, INC.:

3 JORDAN L. KESSLER, ESQ.  
 4 HOLLAND & HART, LLP  
 110 North Guadalupe, Suite 1  
 Santa Fe, New Mexico 87501  
 5 (505) 988-4421  
 jlkessler@hollandhart.com

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25

1 (9:53 a.m.)

2 EXAMINER DAWSON: So going down the list,  
3 now we'll go to the next case, which will be number  
4 seven, Case Number 15703, and it's application of XTO  
5 Energy, Incorporated for a nonstandard spacing and  
6 proration unit and compulsory pooling, Eddy County,  
7 New Mexico.

8 Call for appearances, which will be  
9 Ms. Kessler. And you have two witnesses, I presume?

10 MS. KESSLER: Yes, today. Thank you.

11 EXAMINER DAWSON: Okay. Will your  
12 witnesses please stand up, state their name and be sworn  
13 in by the court reporter?

14 MS. REPKA: Angie Repka.

15 MR. FINEGAN: Shane Finegan.

16 (Ms. Repka and Mr. Finegan sworn.)

17 EXAMINER DAWSON: Okay. Ms. Kessler, you  
18 may start your questioning when you get ready.

19 MS. KESSLER: Thank you.

20 ANGIE REPKA,  
21 after having been previously sworn under oath, was  
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Ms. Repka, can you please state your name for

1 the record and tell the Examiners by whom you're  
2 employed and in what capacity?

3 A. Angie Repka. I'm a division landman with XTO  
4 Energy.

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

7 A. Yes.

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

10 A. Yes.

11 Q. Are you familiar with the application filed in  
12 this case?

13 A. Yes.

14 Q. Are you familiar with the status of the lands  
15 in the subject area?

16 A. Yes.

17 MS. KESSLER: Mr. Examiners, I would tender  
18 Ms. Repka as an expert in petroleum land matters.

19 EXAMINER DAWSON: She is so admitted as an  
20 expert in petroleum land matters.

21 Q. (BY MS. KESSLER) Ms. Repka, please explain what  
22 XTO seeks in this application.

23 A. XTO is seeking to pool the west half of the  
24 east half of Sections 8 and 17 in Township 25 South,  
25 Range 29 East.

1 Q. And you're also seeking the formation of a  
2 320-acre nonstandard spacing unit of that acreage?

3 A. Yes, we are.

4 Q. Is Exhibit 1 the filed C-102 for the Corral  
5 Canyon Federal Com #15H well?

6 A. Yes, it is.

7 Q. And this shows a 320-acre nonstandard spacing  
8 unit, correct?

9 A. Correct.

10 Q. What is the API number this well?

11 A. It's 30-015-42927.

12 Q. Has the Division identified a pool and pool  
13 code to the area?

14 A. Yes. It's the Willow Lake; Bone Spring,  
15 Southeast, Pool Code Number 96217.

16 Q. Is this pool governed by Division statewide  
17 rules for oil wells?

18 A. Yes, it is.

19 Q. So 40-acre spacing and 330-foot setbacks?

20 A. Correct.

21 Q. Will the completed interval comply with the  
22 setback requirements?

23 A. Yes.

24 Q. And are these portions of Sections 8 and 17 all  
25 federal lands?

1 A. Yes.

2 Q. Does Exhibit 2 identify XTO's interest and the  
3 uncommitted interest owners in this proposed spacing  
4 unit?

5 A. Yes.

6 Q. Are the uncommitted interest owners highlighted  
7 in yellow?

8 A. Yes.

9 Q. What is included in Exhibit 3?

10 A. Exhibit 3 is the C-102 forms for the Devon  
11 Slider 8 Federal wells in the south half of Section 8.

12 Q. Do these C-102s show that the various Slider  
13 wells are dedicated to the south half of Section 8?

14 A. Yes.

15 Q. Are they in the same pool as the proposed well?

16 A. Yes, they are.

17 Q. Are you familiar with the history of these  
18 wells?

19 A. Yes.

20 Q. Devon permitted these as oil wells; is that  
21 correct?

22 A. Correct.

23 Q. But they're still 320 acres?

24 A. That's right.

25 Q. Is Devon the operator of the Slider wells?

1 A. Yes.

2 Q. And did Devon trade its interest to XTO in the  
3 spacing unit?

4 A. Yes, they did.

5 Q. But they retained ownership of the wellbores;  
6 is that correct?

7 A. Correct.

8 Q. Were they provided notice?

9 A. Yes.

10 Q. Let me take a step back. Were they provided  
11 notice that this well would be in an overlapping spacing  
12 unit?

13 A. Yes, they were.

14 Q. And also provided notice of this hearing?

15 A. Yes.

16 Q. So they're aware of the overlapping spacing  
17 unit?

18 A. Yes.

19 Q. And did they have an objection or no?

20 A. No objection.

21 Q. Do you understand that the allowable for the  
22 project area will be curtailed by the production from  
23 the spacing units in the existing wells?

24 A. Yes.

25 Q. Is Exhibit 4 a copy of one of the well

1 proposals that you sent out to the working interest  
2 owners for the 15H well?

3 A. Yes, it is.

4 Q. And a copy of this letter was sent to all of  
5 the working interest owners, correct?

6 A. Yes.

7 Q. On what date was this letter sent?

8 A. January 24th of 2017.

9 Q. Did it include an AFE?

10 A. Yes, it does.

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

14 A. Yes, they are.

15 Q. And does the well-proposal letter identify  
16 overhead and administrative costs for drilling and  
17 producing the well?

18 A. Yes. It identifies 7,500 for drilling and 750  
19 for producing.

20 Q. Are these rates consistent with what operators  
21 in the area charge for similar wells?

22 A. Yes, they are.

23 Q. Do you ask that those costs be incorporated  
24 into any order resulting from the hearing?

25 A. Yes.



1 Q. Do you ask that the costs be adjusted in  
2 accordance with the appropriate accounting procedures?

3 A. Yes.

4 Q. For uncommitted interest owners, do you request  
5 that the Division impose a 200 percent risk penalty?

6 A. Yes.

7 Q. And in addition to sending the well-proposal  
8 letters, what other efforts did you undertake to reach  
9 an agreement with the parties on Exhibit 2 that you seek  
10 to pool?

11 A. I have follow-up e-mails and phone calls from  
12 each of these parties.

13 Q. So you've had communications with all of the  
14 parties?

15 A. Yes.

16 Q. For some parties, are you close to reaching an  
17 agreement?

18 A. Yes.

19 Q. But those agreements have not yet been  
20 completed?

21 A. Yes. I do not have originals in the office.

22 Q. And in the event you do reach an agreement with  
23 any of these interest owners, will you notify the  
24 Division?

25 A. Yes.

1 Q. Did you publish notice of this hearing?

2 A. Yes, we did.

3 Q. Is that included in Exhibit 5?

4 A. Yes.

5 Q. And is that because we did not receive a return  
6 green card for LRF?

7 A. Yes.

8 Q. But you did have conversations with LRF; isn't  
9 that correct?

10 A. Yes, I have.

11 Q. Did XTO identify offset operators or lessees of  
12 record in the surrounding tract of the proposed unit?

13 A. Yes, we did.

14 Q. Were they provided notice of this hearing?

15 A. Yes, they were.

16 Q. Is Exhibit 6 an affidavit prepared by my office  
17 with attached letters providing notice of this hearing  
18 to the parties that were entitled to notice?

19 A. Yes, it is.

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

22 A. Yes, they were.

23 MS. KESSLER: Mr. Examiners, I move  
24 admission of Exhibits 1 through 6, which has my two  
25 notice affidavits as 5 and 6.

1 EXAMINER DAWSON: Exhibits 1 through 6 will  
2 be admitted to the record.

3 (XTO Energy, Inc. Exhibit Numbers 1 through  
4 6 are offered and admitted into evidence.)

5 MS. KESSLER: That concludes my  
6 examination.

7 EXAMINER DAWSON: Do you have any  
8 questions, Phil?

9 EXAMINER GOETZE: I have no questions for  
10 this witness.

11 EXAMINER BROOKS: I do.

12 CROSS-EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Just to clarify, of the -- let's see. The  
15 parties that were noticed for the compulsory pooling,  
16 are those parties listed on Exhibit A to Exhibit Number  
17 2 and highlighted in yellow?

18 A. Yes, sir.

19 Q. And those are the same parties named on the  
20 second page of Exhibit Number 6 as being noticed?

21 A. Yes.

22 Q. I'm sorry. I didn't hear your answer.

23 A. Yes.

24 Q. Okay. Now, the reason that -- you said that  
25 all of those parties you have a certified --

1 certified -- return certifications from, except for LRF,  
2 Jr., LLC?

3 A. Yes.

4 Q. And that one, as to LRF, Jr., LLC, do you  
5 have -- do you have knowledge that they have actual  
6 notice?

7 A. I have actually received a photocopy of their  
8 executed JOA and participation letter, but I do not have  
9 the originals in my office.

10 Q. So they are committed to the well?

11 A. Yes.

12 Q. Okay. Thank you.

13 EXAMINER DAWSON: I have one further  
14 question I wanted to ask you about.

15 THE WITNESS: Okay.

16 CROSS-EXAMINATION

17 BY EXAMINER DAWSON:

18 Q. This Moon Royalty, LLC that's listed on your  
19 list of noticed parties, do you have a card for them  
20 back here? I was kind of looking. Can you show me  
21 where the card is for this?

22 A. We should have a card. But they've actually  
23 executed the JOA and election letter, so they are not  
24 being pooled.

25 Q. Oh, okay.

1 MS. KESSLER: Actually, it looks like we  
2 did receive a card back from LRF. And that happened  
3 very recently, so it hasn't been updated.

4 And the Moon Royalty returned green card is  
5 under the LRF green card, which is on the third page of  
6 green cards.

7 EXAMINER DAWSON: Third page of the green  
8 cards?

9 MS. KESSLER: Yeah. So it's the sixth page  
10 of the notice exhibit.

11 EXAMINER DAWSON: I still don't see them on  
12 here. Are you talking about under Exhibit 6?

13 MS. KESSLER: Exhibit 6, yeah, the first  
14 page is the affidavit. The second page is the list.  
15 The third page is the letter, so four, five, and then  
16 the sixth page, there is a green card for Moon Royalty,  
17 LLC.

18 EXAMINER DAWSON: Okay. I got it. Great.  
19 That's all the questions I have. Thank you very much.

20 You can call your next witness now.

21 MS. KESSLER: Thank you.

22 SHANE FINEGAN,  
23 after having been previously sworn under oath, was  
24 questioned and testified as follows:  
25

1 DIRECT EXAMINATION

2 BY MS. KESSLER:

3 Q. Please state your name for the record.

4 A. Shane Finegan.

5 Q. By whom are you employed and in what capacity?

6 A. I'm a regional geologist with XTO Energy.

7 Q. Have you previously testified before the  
8 Division?

9 A. I have not.

10 Q. Can you please outline your educational  
11 background?

12 A. Yes. I have a Bachelor of Science degree in  
13 geology from Tarelton State University, in 2003, and I  
14 have a Master of Science degree also in geology from  
15 Texas Christian University in 2016.

16 Q. What is your work history?

17 A. I've been with XTO since 2008. In the last  
18 three years, I've worked assets in the Permian Basin.  
19 Prior to XTO, I was with Quicksilver Resources for two  
20 years, and before that, I was a geology intern also with  
21 Quicksilver Resources.

22 Q. Are you a member of any professional  
23 associations?

24 A. Yes, I am. I'm a member of the American  
25 Association of Petroleum Geologists and also the

1 Fort Worth Geologic Society.

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

4 A. Yes, I am.

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

7 A. I have.

8 MS. KESSLER: Mr. Examiners, I would tender  
9 Mr. Finegan as an expert in petroleum geology.

10 EXAMINER DAWSON: Mr. Finegan is tendered  
11 as an expert, and he is admitted as an expert in  
12 petroleum geology.

13 Q. (BY MS. KESSLER) Mr. Finegan, please turn to  
14 Exhibit 7. What does this map show?

15 A. This is a locator map showing the location of  
16 the proposed Corral Canyon Federal 15H. It's  
17 highlighted in yellow.

18 Q. This also shows the Slider wells -- the Devon  
19 Slider wells in Section 8; is that correct?

20 A. That's correct. They're Avalon Shale  
21 horizontal wells.

22 Q. And this also shows other Bone Spring and  
23 Avalon producers in the area?

24 A. That's correct. It shows Bone Spring and  
25 Avalon horizontal wells in the Willow Lake; Bone Spring,

1 Southeast pool. The Bone Spring sand wells are shown  
2 with the pink diamond symbol highlight, and the Avalon  
3 Shale horizontals are with the blue-circle highlight.

4 Q. And what is Exhibit 8?

5 A. Exhibit 8 is a structure map and subsea TVD on  
6 the base of the Bone Spring Formation, with a 50-foot  
7 contour interval showing a consistent regional formation  
8 dip to the east of approximately 1 degree, and it also  
9 shows a three-well -- a line of a three-well cross  
10 section, A to A prime, that is shown on a subsequent  
11 exhibit.

12 Q. And the three wells that you've used for your  
13 cross section, these logs cover the subject formation?

14 A. That is correct, yes, and across the area of  
15 interest.

16 Q. Do you consider these wells representative of  
17 wells in the area?

18 A. Yes, I do.

19 Q. Exhibit 9 is the corresponding cross-section  
20 exhibit?

21 A. Yes. That is the three-well cross section. It  
22 is flattened on the base of the Bone Spring, showing the  
23 Bone Spring Formation across the area, showing  
24 consistent formation thickness and the presence of sand  
25 throughout the area. And also the target interval is



1 indicated with the red arrow.

2 Q. What have you noticed in the target interval  
3 with respect to continuity of the formation?

4 A. It is continuous across the area of interest.  
5 And these logs are the standard triple combo logs, with  
6 gamma ray in track one to the far left, the porosity log  
7 in track two in the middle, and the resistivity logs in  
8 track three on the far right.

9 Q. Have you identified any geologic hazards to  
10 drilling the proposed two-mile well?

11 A. I have not.

12 Q. Do you believe that the area can be efficiently  
13 developed by horizontal wells?

14 A. Yes, I do.

15 Q. And in your opinion, will each of the tracts in  
16 the nonstandard spacing unit contribute to production  
17 from the well?

18 A. Yes.

19 Q. Will the completed interval comply with the  
20 Division's Horizontal Well Rule of setback requirements?

21 A. Yes.

22 Q. And in your opinion, is granting this  
23 application in the best interest of conservation, the  
24 prevention of waste and the protection of correlative  
25 rights?

1           A.     Yes.

2           Q.     Were Exhibits 7, 8 and 9 prepared by you or  
3 your complied under your direction and supervision?

4           A.     Yes, they were.

5                   MS. KESSLER:  Mr. Examiner, I'd move  
6 admission of Exhibits 7 through 9.

7                   EXAMINER DAWSON:  Exhibits 7 through 9 will  
8 be admitted into the record.

9                   (XTO Energy, Inc. Exhibit Numbers 7 through  
10 9 are offered and admitted into evidence.)

11                  EXAMINER DAWSON:  Mr. Goetze, any  
12 questions?

13                               CROSS-EXAMINATION

14 BY EXAMINER GOETZE:

15           Q.     So this well -- good morning.

16           A.     Good morning.

17           Q.     This well is being done in cooperation with the  
18 other two, the Corral Canyon to the west half?

19           A.     Yes, sir.

20           Q.     And then you're looking at having a fourth one  
21 in the east half of the east half?

22           A.     Yes, sir.  We'll present that, I believe, in  
23 two weeks.

24           Q.     At a later date?

25           A.     Yes, sir.

1 Q. I have no further questions other than that.

2 Thank you.

3 A. Thank you.

4 EXAMINER DAWSON: Mr. Brooks, do you have  
5 any questions?

6 EXAMINER BROOKS: No questions.

7 EXAMINER DAWSON: I just have a couple of  
8 questions.

9 CROSS-EXAMINATION

10 BY EXAMINER DAWSON:

11 Q. The wells that are east-west wells up there in  
12 the south half of Section 8, those are all Avalon wells?

13 A. Yes, sir.

14 Q. So that's quite a bit of vertical separation  
15 between the Avalon and your target formation in the Bone  
16 Spring?

17 A. Yes, sir, approximately 1,400 feet of vertical  
18 separation.

19 Q. So there is no ability for those wells to  
20 communicate with those shallower Avalon wells --

21 A. No.

22 Q. -- when you frac them or complete them?

23 A. No, sir.

24 Q. The two-mile-long lateral that you're proposing  
25 to drill, are you seeing better -- you have drilled some

1 two-mile wells in the immediate area or in the Bone  
2 Spring?

3 A. The wells to the north in Sections 5 and 32,  
4 those are XTO wells. Those are Bone Spring horizontal  
5 wells. They're not quite 10,000 feet. Our acreage  
6 limited us to -- those wells are roughly 7,000, 7,500  
7 feet. We do prefer to drill 10,000-foot laterals. Our  
8 engineers have determined that the 10,000-foot laterals  
9 are the best economics, and we have quite a bit of  
10 experience with 10,000-foot laterals in the Midland  
11 Basin.

12 Q. Do you anticipate you'll start pushing those  
13 wells further than 10,000, or do you not know about that  
14 yet?

15 A. It's in discussion. I think where we can drill  
16 10,000-foot wells, that's what we prefer. There are  
17 some areas, just based on how our land is situated,  
18 where we may have to push it further than 10,000 feet.  
19 We're currently evaluating that now.

20 Q. All right. That's all the questions I have.

21 A. Thank you.

22 Q. Thank you very much.

23 EXAMINER DAWSON: Thanks, Ms. Kessler.

24 So that concludes Case Number 15703, which  
25 will be taken under advisement.

1 (Case Number 15703 concludes, 10:11 a.m.)  
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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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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