

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 SOUTHLAND ROYALTY COMPANY, LLC FOR DESIGNATION OF A NONSTANDARD SPACING AND PRORATION UNIT AND PROJECT AREA, AND FOR EXCEPTION TO THE WELL LOCATION PROVISIONS OF THE SPECIAL RULES AND REGULATIONS FOR THE BASIN-MANCOS GAS POOL AND THE BASIN-DAKOTA POOL, RIO ARriba COUNTY, NEW MEXICO. CASE NO. 15919

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, December 21, 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.

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25

1 (2:33 p.m.)

2 EXAMINER DAWSON: And we will go on now to
3 number 23 on the list, Case Number 15919, application of
4 Southland Royalty Company, LLC for designation of a
5 nonstandard spacing and proration unit and project area,
6 and for exception to the well location provisions of the
7 special rules and regulations for the Basin-Mancos Gas
8 Pool and the Basin-Dakota Pool, Rio Arriba County, New
9 Mexico.

10 Call for appearances.

11 MR. HALL: Mr. Examiner, Scott Hall, with
12 Montgomery & Andrews, on behalf of Southland Royalty
13 Company, LLC, with two witnesses this afternoon.

14 EXAMINER DAWSON: Okay. Can your witnesses
15 please stand and be sworn under oath?

16 (Mr. Holmes and Mr. Thompson sworn.)

17 JONATHAN A. HOLMES,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. HALL:

22 Q. For the record, please state your name.

23 A. Jonathan Holmes.

24 Q. Mr. Holmes, where do you live and by whom are
25 you employed?

1 A. I live in Fort Worth, Texas, and I'm employed
2 by Morningstar Partners.

3 **Q. And in what capacity is that?**

4 A. I am the land manager for Morningstar and its
5 affiliated companies, one of which is Southland Royalty
6 Company.

7 **Q. And you've not previously testified before the**
8 **Oil Conservation Division and had your credentials as a**
9 **petroleum land landman accepted as a matter of record?**

10 A. No, I have not.

11 **Q. Why don't you give the Examiners a brief**
12 **summary of your educational background and experience?**

13 A. Sure. I hold a Bachelor of Business
14 Administration from Texas Tech University, where I
15 majored in energy commerce with an emphasis in petroleum
16 land management. I have over ten years of experience in
17 the oil and gas industry. I have worked in the land
18 profession since 2005. I'm currently working on
19 projects for Southland Royalty Company in Wyoming,
20 Colorado, New Mexico, Texas Louisiana and Mississippi.

21 **Q. And you're familiar with the application and**
22 **the lands that are the subject of the application in**
23 **this matter?**

24 A. Yes.

25 **Q. And you're also familiar with the status of**

1 **those lands?**

2 A. I am, yes.

3 MR. HALL: At this point I would offer
4 Mr. Holmes as a qualified expert petroleum landman.

5 EXAMINER DAWSON: Mr. Holmes will be
6 admitted as an expert petroleum landman at this point.

7 **Q. (BY MR. HALL) Would you please summarize for**
8 **us, Mr. Holmes, what Southland is seeking by this**
9 **application?**

10 A. Southland seeks approval of an 800-acre, more
11 or less, nonstandard spacing and proration unit or units
12 in the Mancos and Dakota Formations: The Basin-Mancos
13 Gas Pool, number 97232, and the Basin-Dakota Pool,
14 number 71599, for Southland's communitized horizontal
15 drilling project area comprised of the land in the
16 southeast quarter of Section 27, the south half of
17 Section 26 and the south half of Section 25, all located
18 in Township 32 North, Range 5 West, Rio Arriba County,
19 New Mexico.

20 **Q. And if we can refer the Examiners to Exhibit 1,**
21 **does this identify the outlined communitized area we're**
22 **talking about here?**

23 A. Yes. Southland also seeks a blanket exception
24 to the well setback locations provisions of the special
25 rules for the Basin-Mancos Gas Pool, Order Number

1 R-12984, and the Basin-Dakota Pool, Order R-10987,
2 authorizing well locations within 330 feet of the outer
3 boundaries of the project area.

4 Q. Okay. And, again, if we look at Exhibit 1,
5 that'll show us the communitized area in red?

6 A. Yes.

7 Q. And is the yellow Southland's ownership?

8 A. Yes. Southland acquired its interest in the --
9 all the lands located on Exhibit 1 from Energen
10 Resources via a signed bill of sale effective January
11 1st, 2015.

12 Q. And the subject lands are in the vicinity of
13 the Carracas Canyon Unit; is that correct?

14 A. That is correct.

15 The Carracas Canyon Unit has been
16 contracted to include formations only from the surface
17 to the base of Pictured Cliffs. Southland plans to form
18 a new unit to more efficiently and economically develop
19 the Mancos and Dakota Formations.

20 Q. And if we turn to Exhibit 2, is that a letter
21 dated April 21st, 2017 from the BLM's Farmington field
22 office approving of a contraction?

23 A. Yes, it is.

24 Q. And what does the contraction cover? What's
25 remaining in the unit and --

1 A. Just the surface to the base of the Pictured
2 Cliffs.

3 Q. All right. And turn to Exhibit 3 and identify
4 that for us.

5 A. This is the fully executed communitization
6 agreement between Southland Royalty Company and the
7 Bureau of Land Management.

8 Q. And is that dated December 8th, 2017?

9 A. Yes, it is.

10 Q. Very recent.

11 And what are the units -- I'm sorry --
12 communitized intervals near this com agreement?

13 A. The Mancos and the Dakota.

14 Q. Let me hand out an additional exhibit,
15 Mr. Holmes, marked as Exhibit 3A. Could you refer to
16 that, please?

17 A. Yes.

18 Q. What are looking at here in Exhibit 3A?

19 A. The red outline on the exhibit is Southland's
20 proposed boundary outline for an undivided unit --
21 federal undivided unit comprising of sections in
22 Township 32 North, 5 West and Township 32 North, 4 West
23 to adequately develop the Mancos. This area of northern
24 New Mexico is inside the Carson National Forest. It has
25 many topographical and archeological issues making

1 surface access very difficult, and so Southland's
2 planned proposed outline will effectively develop the
3 Mancos and the Dakota. Once our procurement of water,
4 we plan to move forward with the undivided unit.

5 Q. Have you had some initial discussions with BLM
6 about the --

7 A. Yes. Yes. We have been in discussions with
8 the BLM office. We plan to have our area depth meeting
9 sometime within the first quarter of 2018.

10 Q. All right. Let's refer to Exhibits 4 and 5,
11 and I'll ask you: Are these the C-102 plats for the two
12 wells that are described in the application, the
13 Carracas 27A 101H and 102H?

14 A. Yes, it is.

15 Q. And the footage calls for those wells are
16 evident on the C-102s; are they not?

17 A. They are.

18 Q. And will those two wells be drilled from the
19 same pad?

20 A. Yes. They will share a pad.

21 Q. Does Southland have an idea of what the first
22 and last take points will be for these wells?

23 A. Yes, we do.

24 Q. What are those?

25 A. The take points -- the first take points will

1 be 350 feet from the east line of Section 25 and 650
2 feet from the south line, and the heel perforation of
3 the last take point will be 1,650 the south line and 200
4 feet from the east line of Section 27.

5 **Q. And just very briefly, what are your targets**
6 **for these wells, geologic targets?**

7 A. Internally, Southland calls the target
8 intervals the Mancos A and the Mancos B Formations. The
9 objective target is the two middle -- what we call the
10 two middle benches of the Mancos. Other operators in
11 the surrounding area refer to these horizons as the
12 Mancos Olive and Mancos Black, both of which have been
13 completed successfully by other operators in the San
14 Juan Basin.

15 **Q. All right. And we have Mr. Paul Thompson from**
16 **Walsh Engineering here today to talk to us a little bit**
17 **more about the geology in the development area?**

18 A. Yes.

19 **Q. Let's talk some more about the Carson National**
20 **Forest. If you'll turn to Exhibits 6 and 7, what are**
21 **those?**

22 A. These are -- Number 6 is a topo map showing the
23 topographical concerns of the area and our proposed
24 surface-hole location -- surface location.

25 Exhibit 7 is a satellite image of the

1 forest as well showing what -- our plans are is to
2 utilize an existing pad location, build onto that pad
3 for multiple wells for the benefit of the Laurali
4 [phonetic] Unit first serving this communitization area
5 for the first two wells, but later to be utilized for
6 multiple wells in both the west-to-east direction, as
7 well as the east-to-west direction.

8 Q. And the wells from the surface plats indicated
9 on these two exhibits, you'll be drilling to the east,
10 right?

11 A. Yes. Yes. From west to east, yes.

12 Q. And it looks like you fall off a cliff to the
13 river.

14 A. Yes. We have one way in, one way out, a lot of
15 access-road issues to get -- get the drilling rig there.
16 We are in talks with the Carson National Forest about
17 getting all the applicable permits from them to ensure
18 our lowest footprint possible for our new road
19 construction new, pad construction, as well as pipeline
20 construction and water pipeline construction.

21 Q. All right. Referring back to Exhibits 4 and 5,
22 the C-102s, we note those bottom-hole locations at 350
23 feet. Are those locations currently permissible under
24 either the rules for the Basin-Mancos Gas Pool or for
25 the Dakota Gas Pool?

1 A. No.

2 Q. So that's why you're seeking exceptions for
3 both pools?

4 A. Yes.

5 Q. Would the Dakota otherwise be developed without
6 an exception to tag along with like that?

7 A. No. No. We see there are benefits in the
8 Dakota and want to develop it, but because of the
9 surface constraints, we see a lot of beneficial use of
10 having them combined and able to commingle them through
11 the same first surface facilities to lower overall
12 impact.

13 Q. Are you aware whether there is currently in
14 place a poolwide commingling order for the Dakota and
15 Mancos Formations?

16 A. Yes, there is.

17 MR. HALL: And, Mr. Examiner, I would just
18 refer you to Order R-12984-B, and I have copies if you'd
19 like that.

20 EXAMINER DAWSON: Please.

21 Q. (BY MR. HALL) I think if we look back at
22 Exhibit 1, it shows the outline of your communitized
23 area. Will this configuration for your unit result in
24 the stranding of any acreage in the southwest quarter of
25 Section 27?

1 A. No.

2 Why we would like to include that quarter
3 section is because -- oh, of the southwest quarter?

4 **Q. Yes.**

5 A. Oh, the southwest quarter, no, because we do
6 have plans to drill wells off that same pad from west --
7 or east to west.

8 **Q. You'll pick up that acreage to the west?**

9 A. Yes. Yes. Yes.

10 **Q. Can you state now approximately how many wells**
11 **you expect to drill off this pad?**

12 A. We plan -- the pad is being designed for up to
13 16 wells.

14 **Q. And let's look on that area map there. If you**
15 **look at the east half of Section 28, do you have some**
16 **diverse lease ownership there?**

17 A. Yes, we do.

18 **Q. And have you provided me with the names and**
19 **mailing addresses for those for purposes of**
20 **notification?**

21 A. Yes. And I have personally talked to the
22 offset lessee [sic].

23 **Q. And none have indicated any objection to your**
24 **application?**

25 A. No.

1 Q. Mr. Holmes, in your opinion, will granting
2 Southland's application be in the interest of
3 conservation and the prevention of waste?

4 A. Yes.

5 Q. And let's look at one more exhibit, if you
6 would look at Exhibit 8. Is Exhibit 8 a cross section
7 that's Southland Royalty Company has provided?

8 A. Yes.

9 Q. And did you direct your geology staff in Fort
10 Worth to prepare this?

11 A. Yes, I did.

12 MR. HALL: At this point, Mr. Examiner, we
13 would move the admission of Exhibits 1 through 8.

14 EXAMINER DAWSON: Exhibits 1 through 8 will
15 be admitted to the record at this time.

16 (Southland Royalty Co., LLC Exhibit Numbers
17 1 through 8 are offered and admitted into
18 evidence.)

19 MR. HALL: Pass the witness.

20 EXAMINER DAWSON: Okay. Mr. Goetze?

21 EXAMINER GOETZE: It's refreshing to see
22 something east-west instead of diagonal. And I have no
23 questions.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER BROOKS:

3 Q. The indication that we have heard is that the
4 BLM is not going to be approving any more consolidated
5 units.

6 A. Uh-huh.

7 Q. Where do you stand with that?

8 A. We are aware of the recent ruling or thoughts
9 by the BLM about an undivided unit.

10 Q. Yeah.

11 A. We have started the conversations with the
12 engineering staff and the BLM staff in Aztec and
13 Farmington. Our Laurali Unit predates the kind of
14 ruling, and our understanding is that the Laurali Unit
15 will be grandfathered in under the old rule.

16 Q. It will relate to the date when the unit --
17 when the application approval was filed?

18 A. Right. The way it was described at a
19 hearing -- or a meeting two weeks ago was that anything
20 that was in the hopper, meaning it was on the radar, not
21 necessarily had an area and depth meeting already -- but
22 we had been working with the BLM since about January of
23 '17 on this particular unit. We are ready to submit our
24 Exhibit B, our unit agreement. We are working with
25 the only other two -- the working interest parties in

1 the overall unit. But to secure two APDs, to move
2 forward with the forest, we felt it was better to form
3 the nonstandard location proration unit and then absorb
4 that into the undivided unit once we secure our water.
5 And that's what we're currently working on as well.

6 Q. Okay. Well, I guess there are a lot of
7 uncertainties involved in this.

8 A. There sure are. A lot of moving parts for
9 sure.

10 Q. Well, as I stated in an earlier case today, the
11 rules that we have for notice on nonstandard units do
12 not contain any exceptions for either plans of
13 development or even actual development on the omitted
14 portion, and so that raises an issue which -- I guess
15 somebody has to interpret that rule as to what it means,
16 and without a director, we can't come up with an
17 authoritative interpretation. So, again, this would
18 seem -- this will have to be held to see what the new
19 director is willing to do, unless you want to notice
20 everybody in the west half of Section 27.

21 MR. HALL: Well, that's Energen. And we
22 extended 160-acre tracts all the way around it and on
23 the corners. But, you know, it's mostly Energen except
24 for that acreage in the east half of 28.

25 THE WITNESS: You mean it's Southland

1 acreage, right?

2 MR. HALL: Is that where we have the
3 diverse ownership, the east half?

4 THE WITNESS: The east half of Section 28
5 is the only standard -- section around there where
6 Southland doesn't own 100 percent of the offset
7 leasehold. And one other point to note on the ownership
8 is this is 100 percent BLM.

9 MR. HALL: Right.

10 Q. (BY EXAMINER BROOKS) The royalty would be.
11 What about overrides?

12 A. There are overrides. We --

13 Q. I knew there were some overrides in the
14 Carracas Canyon. I may have seen my name in some of the
15 title work.

16 A. Yeah. We are aware of the overrides.

17 Q. Well, our reading of that rule would be that
18 the overrides would be entitled to notice, if indeed
19 that rule applies, which, like I say, there is no
20 exception to -- it doesn't contain an exception. So you
21 have to infer an exception.

22 Now, there will be -- we're proposing a
23 development exception in the new horizontal well rule,
24 but, like I say, that's myself. So I just throw those
25 things out. I'm certainly willing to take it with all

1 the other cases involving nonstandard units and take it
2 to the director -- to the new director and get him to
3 give an interpretation because he's the one that's going
4 to have to be signing these orders.

5 MR. HALL: Right. Well, you and I had a --
6 we had a discussion about this last week in another
7 case, and you know my take on it, notifying owners of
8 nonexecutive rights or operating rights.

9 EXAMINER BROOKS: Yes. Well, that is a
10 question, and it is something that only a director can
11 give the OCD's interpretation of and only the courts can
12 give the final interpretation of. But like I say, you
13 have the option of either going back and noticing those
14 people and continuing the case to make that notice
15 effective, or you can wait and see what the new director
16 rules, his interpretation of the rule.

17 MR. HALL: You can take this transcript to
18 the new director, and it will now say, Look, what we've
19 tried to do. I've tried to follow the existing rule
20 that's out there, and if you notify existing offset
21 operators in a nonstandard unit --

22 EXAMINER BROOKS: Well, but I'm talking
23 about a nonstandard spacing unit rule.

24 MR. HALL: Right. Right. So we've done
25 that, but where you are also that offset operator, you

1 can notify the underlying working interest owners.

2 EXAMINER BROOKS: Yes.

3 MR. HALL: And -- and the royalty owner,
4 you would -- on that.

5 EXAMINER BROOKS: Well, the rule on
6 nonstandard units, though, is different. That's the
7 rule on nonstandard locations.

8 The rule on nonstandard units says that you
9 notify all owners of the mineral estate in the portion
10 of the unit that is left out -- in the portion of the
11 half section, in the case of the 320-acre units, that is
12 left out of the proposed nonstandard unit.

13 Now, what you're -- there are several
14 interpretation problems with that statute -- of that
15 rule. It's not a statute. It's a rule. But we are
16 having many, many of these coming in. I have four or
17 five of them sitting on my desk waiting to see if the
18 new operator [sic] agrees with Mr. Catanach about how we
19 ought to have them.

20 MR. HALL: Well, I'll toss this into the
21 record, too. Mineral estate is the highest form of
22 ownership. It's the most broad. Mineral interest is
23 something less. Pure revenue interest is an even lesser
24 interest still.

25 EXAMINER BROOKS: Well, now I interpreted

1 the definition of mineral interest a little differently.
2 I thought mineral interest says the highest form of -- I
3 thought that meant highest in terms of number of people
4 it applies to; in other words, everybody who gets a
5 check.

6 MR. HALL: No. I think it means scope of
7 rights.

8 EXAMINER BROOKS: Yeah. Well, that one is
9 also ambiguous, and I haven't really thought about that
10 ambiguity. The definition of mineral interest in the
11 OCD rule doesn't make a whole lot of sense to me, and
12 I'm proposing that we revise it in the horizontal well
13 rule. But maybe we should revise the definition of
14 mineral estate. My assumption was, from reading those
15 statutes, that they wanted to include royalty and,
16 presumably, also overriding royalty interests in the
17 notification whenever people were being left out of a
18 standard unit because they didn't want to leave people
19 out of standard units. They wanted to make it really
20 difficult.

21 MR. HALL: So nonprofit interest owners,
22 mortgage interest owners?

23 EXAMINER BROOKS: Just about. And I
24 can't -- you know, I don't think it's a good rule, but I
25 think that -- I think that's what it meant when they

1 wrote it. In a situation or something like this, it
2 would not have been a possibility, obviously. So I will
3 take it up with the new director if you want me to go
4 that way. And I can only tell him what I think and
5 let -- him or her -- let him or her figure out what they
6 want to do.

7 MR. HALL: All right. Let me -- is there
8 anything more for Mr. Holmes?

9 EXAMINER DAWSON: I have no further
10 questions.

11 MR. HALL: Okay.

12 EXAMINER BROOKS: I have none either.

13 MR. HALL: I'd move the admission of
14 Exhibit 3A as well. I missed that one. It's the unit
15 map.

16 EXAMINER DAWSON: Yes. Exhibit 3A will be
17 admitted to the record at this time.

18 Did you want to admit this as an exhibit
19 also?

20 MR. HALL: No. That's just for your
21 information.

22 (Southland Royalty Co., LLC Exhibit Number
23 3A is offered and admitted into evidence.)

24 EXAMINER DAWSON: Okay. You can call your
25 next witness.

1 MR. HALL: Call Paul Thompson.

2 PAUL C. THOMPSON,

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

5 DIRECT EXAMINATION

6 BY MR. HALL:

7 Q. For the record, state your name.

8 A. Paul Thompson.

9 Q. Mr. Thompson, where do you live and by whom are
10 you employed?

11 A. I live in Farmington, New Mexico. I'm the
12 president of Walsh Engineering Production Corporation.

13 Q. And you have previously testified before the
14 Examiner and had your credentials as an expert petroleum
15 engineer accepted. I don't know that you are familiar
16 with all of these Examiners. Why don't you give them a
17 brief summary of your educational background and work
18 experience?

19 A. I've got a bachelor's degree in chemical
20 engineering from New Mexico State University. I'm a
21 registered professional engineer in the state of New
22 Mexico in petroleum engineering. I worked for Phillips
23 Petroleum for a couple of years in the research center
24 and then moved to Farmington in late '79 and have been
25 actively drilling and completing wells in the San Juan

1 Basin ever since. I was the manager of production and
2 drilling for Williams Production Company, which became
3 WPX. And in 1991, I purchased my father-in-law's
4 consulting business, Walsh Engineering, and I've been
5 doing that for the last 25 years.

6 Q. And in the course of your experience in the San
7 Juan Basin, have you gained a good working knowledge of
8 the area geology?

9 A. I believe so.

10 Q. Okay.

11 MR. HALL: We're offering Mr. Thompson
12 again as a qualified expert petroleum engineer. He's
13 going to be talking to us a lot about the geology today.

14 EXAMINER DAWSON: Okay. Mr. Thompson will
15 be admitted as an expert petroleum engineer.

16 Q. (BY MR. HALL) Mr. Thompson, did you undertake a
17 geologic investigation to determine prospective
18 productivity for this tract that will comprise the
19 communitized area?

20 A. Yes. I'm familiar with geologic studies in the
21 dry gas portion of the Mancos Formation and believe that
22 all of Township 32 North, 5 West would be productive in
23 the Mancos Formation.

24 Q. Do you have an opinion whether each of the
25 tracts within the communitized area will contribute

1 **reserves to the wells?**

2 A. I believe so. If you could refer to Exhibit
3 9 --

4 **Q. Okay.**

5 A. -- which is an isopach map of the Mancos Shale
6 across the whole Basin. But you can see the continuity
7 of the area of 32-5. The Mancos is fairly homogeneous
8 through this area.

9 **Q. All right. Then let's refer back to -- let's**
10 **see. Let's continue forward to Exhibits 10 and 11. Why**
11 **don't you explain those for us?**

12 A. Exhibit 10 just shows the cross-sectional --
13 the points that were prepared. And then Exhibit 11 is
14 actually the stratigraphic cross section of which -- you
15 know, from B to B prime, where the 32-5 area is on the
16 far right-hand side. So you can see the continuity of
17 the Mancos intervals and then the Dakota sandstone below
18 the Mancos.

19 **Q. All right. Do you see any faults or**
20 **discontinuities within the project area for those two**
21 **formations?**

22 A. No, I don't.

23 **Q. Let's refer back to Exhibit 8, the Southland**
24 **cross section. Would you address that for us, please?**

25 A. These are wells actually in 32 and 5. I

1 believe they were Dakota wells, but they just show the
2 continuity again across the township of the Mancos A and
3 B, which are the target intervals, as well as the Dakota
4 sandstone.

5 **Q. And can you identify the proposed landing zones**
6 **for these two wells on the cross-section logs?**

7 A. Well, again, the first well is proposed to be
8 landed in the Mancos A interval and the second well in
9 the Mancos B, or all of the black.

10 **Q. And if the Hearing Examiners wish to find the**
11 **locations for the three wells on the cross section, can**
12 **they refer to the OCD imaging permit screen shot, which**
13 **shows -- which identifies the wells and shows their**
14 **locations in the area?**

15 A. Yeah.

16 **Q. And can you walk us through that, for the**
17 **record? What sections are these three logs from?**

18 A. Well, I don't know. Let me see.

19 **Q. Should be right under Exhibit A. Next page.**

20 A. Oh. This is the -- oh, okay. I'm sorry.
21 They're in Section 24, Section 34 and Section 27, all of
22 32-5.

23 **Q. All right. What's the prevailing development**
24 **pattern for the Mancos Formation in the area?**

25 A. In this area, WPX, to the west of this area,

1 has drilled wells in the Rosa Unit east to west and west
2 to east. And then also BP Mesa, in the northeast Blanco
3 Unit, have also oriented their wells east to west.

4 Q. So Southland's proposed unit comports with the
5 existing orientation of the area?

6 A. Yes.

7 Q. What are the existing well location setback
8 rules for the Basin-Mancos Gas Pool and the Basin-Dakota
9 Pool?

10 A. 660 feet.

11 Q. Do you know whether Southland's proposal for a
12 blanket exception from those rules to allow for 330-foot
13 setbacks in the exterior boundaries of the communitized
14 area is warranted?

15 A. Yes.

16 Q. In your opinion, if the Division approves
17 Southland's application will Southland be able to
18 recover additional incremental hydrocarbon reserves that
19 would otherwise go unrecovered?

20 A. Yes, I think so.

21 Q. For the 101H and the 102H wells, are you able
22 to quantify that at this time?

23 A. Well, estimating -- based on the two-mile
24 lateral that WPX has drilled and the one completed well
25 that BP's drilled, we would expect the ultimate recovery

1 of a 10,000-foot lateral to be in the 14 bcf range,
2 which then computes to 1,400 mcf per foot. An
3 additional 330 feet of lateral should, therefore,
4 contribute an addition 462,000 bcf of reserves.

5 **Q. If Southland proceeds to develop laterals**
6 **within the Dakota Formation in addition to the Mancos**
7 **Formation, do you see any problems -- foresee any**
8 **problems that might result in commingling of those two**
9 **formations?**

10 A. No. You know, there's been previous orders. I
11 think ConocoPhillips had a basinwide commingling
12 approved between the two, the Mancos Gas Pool and the
13 Dakota Gas Pool. The fluids ought to be very
14 compatible. Both of the wells are going to be a little
15 overpressured, but the gradient ought to be the same.

16 **Q. All right. In your opinion, will granting**
17 **Southland's application be in the interest of**
18 **conservation and the prevention of waste?**

19 A. Yes.

20 **Q. And were Exhibits 9 through 12 prepared by you**
21 **or at your direction?**

22 A. Actually, I just compiled these reports.
23 They're all available in the public literature.

24 **Q. So you're talking about the geologic**
25 **literature?**

1 A. Yes.

2 **Q. The type of literature that's recognized and**
3 **relied on by experts in the field?**

4 A. Yes.

5 MR. HALL: We would move the admission of
6 Exhibits 9, 10, 11 and 12.

7 And at this time we offer Exhibit 13, which
8 is our Notice of Affidavit. In this case the notice
9 letters went out in the form of an optional waiver of
10 objection.

11 And Exhibit 14 is a compilation of signed
12 waivers received back this week.

13 And we move the admission of 9 through 14
14 as well.

15 EXAMINER DAWSON: So you're asking for
16 admission of Exhibits 9 through 13 at this time?

17 MR. HALL: Yes.

18 EXAMINER DAWSON: Okay. Exhibits 9 through
19 13 will be admitted to the record.

20 I don't see an Exhibit 14 in mine.

21 MR. HALL: Did I say 14? I meant 13.

22 EXAMINER DAWSON: 13. Yeah.

23 Exhibits 9 through 13 will be admitted to
24 the record at this time.

25 (Southland Royalty Co., LLC Exhibit Numbers

1 9 through 13 are offered and admitted into
2 evidence.)

3 MR. HALL: That concludes our case.

4 CROSS-EXAMINATION

5 BY EXAMINER GOETZE:

6 Q. Good afternoon. I think we've talked over the
7 phone and argued a lot (laughter).

8 A. Yeah.

9 Q. We have two completions in the Mancos, and then
10 we're looking further to go down to the Dakota later on
11 as a separate effort, or is that --

12 A. Yeah. That would be a separate. There's a
13 half a dozen wells drilled in the Dakota in the 32-5
14 township. None of them are very good. That doesn't
15 mean the Dakota's not there. I think it's too tight to
16 complete as a vertical. And so what Southland wants to
17 do is keep the option open to maybe re-enter one of
18 these wells and drill a horizontal Dakota well, which I
19 think is a good idea, but nobody has actually tried it
20 to date.

21 Q. Nice.

22 Everything's pretty self-explanatory.

23 One other question. We had a discussion
24 with the district geologist up in Aztec, Pickford.
25 She's aware of what you're planning.

1 A. I have not talked to her.

2 MR. HOLMES: Yes.

3 EXAMINER GOETZE: Okay. No more questions
4 thank. You very much.

5 EXAMINER DAWSON: Mr. Brooks?

6 MR. BROOKS: No questions.

7 EXAMINER DAWSON: I have no questions.
8 Thank you.

9 MR. HALL: So do I need to decide whether
10 to ask for this to be continued or taken under
11 advisement, or what should I do here?

12 EXAMINER BROOKS: Well, whether it's
13 continued or not, the new director will be the one
14 sending this order. So if you want to continue it and
15 give additional notices, then that yet would have to
16 be -- yes; you would have to decide to continue it.
17 Otherwise, it would go into the matrix with what we
18 submit to the new director for an interpretation. And I
19 will say that I'm obliged to hear your argument because
20 it does make considerable sense. I had never perceived
21 it that way, but I still think that it's unclear. It's
22 still unclear to me what section -- or what -- who --
23 who exactly Section 4.12(A)(3) requires notice to. So I
24 will, in any event, give the benefit of my advice to the
25 new director and let him make the decision. But I would

1 say that it would be helpful if we could get your
2 argument and a page reproduced so that would be part of
3 the file that goes to the director if you want the case
4 taken under advisement.

5 MR. HALL: So if it's not taken advisement,
6 you won't start work on the order in any event?

7 EXAMINER BROOKS: No. We won't start work
8 on the order until it's taken under advisement.

9 MR. HALL: Let me do this. Let me confer
10 with my client, and I will let you know in the next day
11 or two what we want to do.

12 EXAMINER BROOKS: Well, I'm not sure we can
13 take it under advisement except at the hearing, but we
14 can continue this hearing until tomorrow to give you a
15 chance to confer with your clients.

16 MR. HALL: Why don't we take a five-minute
17 break?

18 EXAMINER BROOKS: That's fine. It can be a
19 little longer than five minutes.

20 EXAMINER DAWSON: We'll take a ten-minute
21 break and be back at 3:25.

22 (Recess, 3:13 p.m. to 3:21 p.m.)

23 EXAMINER DAWSON: Back on the record.

24 MR. HALL: So we've made the decision to go
25 ahead and have the case taken under advisement and get

1 to work on it.

2 EXAMINER BROOKS: Okay.

3 MR. HALL: I may take the opportunity to
4 provide you with some authority on the question, if
5 you'd like.

6 EXAMINER BROOKS: Well, that would be fine.

7 You know, these definitions are very
8 different from the way I've heard these terms used
9 during my -- most of my 40 years of oil and gas work
10 because -- well, both -- I noticed in -- I had never
11 really looked at the definition of royalty owners until
12 just a minute ago when I was trying to appraise your
13 argument. And I see that they juxtapose mineral owners
14 by saying they're owners of the executive right, and
15 then royalty owners are saying owners of nonexecutive
16 rights. And that's very contrary to the way I've ever
17 heard the phrase "executive rights" used in my law
18 practice.

19 I've always understood the executive right
20 to be the right to execute a lease covering a mineral
21 interest you don't own. But given the way they're using
22 it, maybe they mean -- well, the phrase is "an owner of
23 the mineral estate," I believe is the way -- that's who
24 you have to notify, according to 14.8(A)(3). And if
25 you -- if the mineral estate is the complete interest

1 that includes both the mineral interest and the -- a
2 pertinent royalty, but it's not the most incomplete
3 [sic] interest-owned -- the -- the -- that's just --
4 they're trying to describe the interest -- the
5 combination of sticks that's ordinarily reserved to the
6 royalty owner in a lease, because normally the most
7 complete interest known to the law is the interest of
8 an -- of an unleased mineral owner because the unleased
9 mineral owner owns the oil and gas. Unless he's
10 conveyed out a fee royalty, there is no other -- no
11 other interest in existence. But I don't know.

12 The other idea is one that I had
13 always -- that I had assumed in reading it in the past
14 was they meant all owners of an interest in mineral
15 estate. Mineral estate being the most complete
16 ownership recognized in the law so that anybody that
17 owns any interest in the oil and gas in that land is an
18 owner of the mineral estate. And that's the way I had
19 always interpreted it until we started having arguments
20 about it. And for some reason, it had never become
21 necessary for me look at this because we've always been
22 doing it on project areas. Most all of them have been
23 putting together 40-acre units, and there is nobody left
24 out in that process.

25 But I will -- I will certainly discuss this

1 with the new director, and I will also get the opinions
2 of some other oil and gas lawyers if I can find somebody
3 that doesn't have a conflict of interest.

4 MR. HALL: Okay.

5 EXAMINER DAWSON: At this point I'm going
6 to take -- number 23 on the list, Case Number 15919, it
7 will be taken under advisement today.

8 Thank you. And that concludes Case 15919.

9 (Case Number 15919 concludes, 3:29 p.m.)

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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 DATED this 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
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