

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

6 APPLICATION OF XTO ENERGY, INC.
7 FOR COMPULSORY POOLING, SAN JUAN
8 COUNTY, NEW MEXICO.

CASE NO. 14980

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11

12

13 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
14 RICHARD EZEANYIM, TECHNICAL EXAMINER

15

16

May 2, 2013

17

Santa Fe, New Mexico

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20 This matter came on for hearing before the
21 New Mexico Oil Conservation Division, Phillip Goetze,
22 Chief Examiner and Richard Ezeanyim, Technical Examiner,
23 on Thursday, May 2, 2013, at the New Mexico Energy,
24 Minerals and Natural Resources Department, 1220 South
25 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

26

27 REPORTED BY: Mary C. Hankins, CCR, RPR
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6

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24

25

1 (8:19 a.m.)

2 EXAMINER GOETZE: First case, Case 14980,
3 application of XTO Energy for compulsory pooling,
4 San Juan County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the Applicant. I have four
8 potential witnesses.

9 EXAMINER GOETZE: Would the witnesses stand
10 and state your names, please?

11 MR. COOK: My name is Lance Cook.

12 MR. ZIMMERMAN: Cy Zimmerman.

13 MR. MUSEKAMP: Charles Musekamp.

14 MS. FIVECOAT: Kameron Fivecoat.

15 EXAMINER GOETZE: Would you administer the
16 oath, please?

17 (Mr. Cook, Mr. Musekamp, Mr. Zimmerman and
18 Ms. Fivecoat sworn.)

19 EXAMINER GOETZE: Proceed.

20 CY ZIMMERMAN,

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Zimmerman, would you please state your full

1 name and city of residence?

2 A. Yes. My name is Cy Zimmerman, and I reside in
3 Fort Worth, Texas.

4 Q. Who do you work for and in what capacity?

5 A. I work for XTO Energy, and my title is
6 associate landman.

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

9 A. No. This will be my first time.

10 Q. Could you summarize your educational and
11 employment background for the Examiner?

12 A. Yes. I graduated from the University of
13 Oklahoma with an energy management degree in December of
14 2011, and I hopped on board with XTO Energy in February
15 of 2012. And I've been working in the San Juan area
16 ever since.

17 Q. Does your area of responsibility at XTO include
18 this portion of San Juan County?

19 A. Yes.

20 Q. And are you familiar with the land matters
21 involved in this application?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I tender
24 Mr. Zimmerman as an expert petroleum landman.

25 EXAMINER GOETZE: So qualified.

1 Q. (BY MR. BRUCE) Mr. Zimmerman, could you
2 identify Exhibit 1A, and describe briefly what XTO seeks
3 in this case?

4 A. Yes. Exhibit 1A is our C-102, which shows our
5 nonstandard unit for the Mancos Formation. This
6 comprises of the north half of Section 16 and the
7 northeast quarter of Section 17, located in Township 29
8 North, Range 14 West.

9 As you can see, the surface-hole location
10 is located in the northeast-northeast quarter of Section
11 16. The bottom-hole location is located in the
12 southwest-northeast quarter of Section 17.

13 Q. And what pools are involved in this Mancos well
14 unit?

15 A. There's the Cha Cha-Gallup pool, which is 80
16 acres, and that comprises of the south half of the
17 northwest quarter of Section 16, and the rest of the
18 unit is the Basin Mancos.

19 Q. And what is the spacing in the Basin Mancos
20 pool?

21 A. It's the rest of the unit. So it comprises of
22 the rest of the north half of Section 16 and then the
23 northeast quarter of Section 17.

24 Q. Under the pool rules for the Basin Mancos, is
25 it normally spaced on 320 acres?

1 A. Oh. Correct.

2 MR. BRUCE: Mr. Examiner, if I might, just
3 so you have it in front of you, these are a copy of the
4 special pool rules for the Cha Cha-Gallup.

5 EXAMINER GOETZE: Thank you.

6 Q. (BY MR. BRUCE) Now, this is a nonstandard unit,
7 is it not, Mr. Zimmerman?

8 A. Yes, it is.

9 Q. And if you're looking at the other acreage in
10 Sections 16 and 17, who is the primary working interest
11 owner?

12 A. XTO owns and controls that acreage, so no one
13 is being excluded from the well unit due to
14 non-ownership [sic].

15 MR. BRUCE: And, Mr. Examiner, we have one
16 oversized exhibit, Exhibit 1B. If you could spread that
17 out, I'll have Mr. Zimmerman identify that exhibit.

18 Q. (BY MR. BRUCE) And describe, at least from a
19 land standpoint, some of the reasons for the nonstandard
20 unit.

21 A. Exhibit 1B is a plat containing an aerial photo
22 of the unit, topographic map. As you can see, we're
23 placing the well near an existing well site, and it's
24 also near the highway, which minimizes the surface
25 disturbance. In addition, drilling the well as we

1 propose will allow us to access reserves without
2 disturbing farm land and residential area.

3 EXAMINER EZEANYIM: Excuse me, please.
4 Repeat your testimony.

5 A. Exhibit 1B, it's a plat, you know, just an
6 aerial photo of our nonstandard units. We're placing
7 the well, the surface-hole location, in the
8 northeast-northeast quarter of Section 16. It's near an
9 existing well site, and it's also near the highway,
10 which minimizes surface disturbance. In addition, we're
11 drilling the well; as we propose, it allows us to access
12 the reserves without disturbing farm land and
13 residential area.

14 Q. (BY MR. BRUCE) If you were putting the location
15 over in Section 16, there would be difficulty because of
16 all of the residences over there?

17 A. Correct. Uh-huh.

18 Q. Okay. And, again, this is a nonstandard unit,
19 correct?

20 A. Yes.

21 Q. And could you identify Exhibit 2 for the
22 Examiners.

23 A. Yes. Exhibit 2 is -- our administrative
24 approval of the unit by Administrative Order NSP-1963,
25 and we obtained administrative approval for our

1 nonstandard units.

2 MR. BRUCE: And, Mr. Examiner, that's why
3 we're not, as part of this hearing today, asking for the
4 nonstandard unit, since it's already been approved.

5 Q. (BY MR. BRUCE) What is the working interest
6 ownership of the well unit? And I refer you to Exhibit
7 3.

8 A. Exhibit 3, this is our Exhibit A to the JOA,
9 and this shows the working interest owners and their
10 percentages.

11 Q. And who are you force pooling today?

12 A. We are force pooling the unleased mineral
13 owners, and that is West American Corporation and the
14 State Highway Department.

15 Q. And are they -- as stated on your Exhibit 3,
16 they are unleased fee mineral owners; are they not?

17 A. Correct, and comprised in the northeast quarter
18 of Section 17.

19 Q. There are three other parties listed in the
20 JOA: Burlington, EVKO Development and Chase Oil. Are
21 they being force pooled today?

22 A. No. Burlington Resources, we are entering a
23 farm-out agreement with them, and EVKO Development
24 Company, they signed the JOA and will go nonconsent.
25 And with Chase Oil Corporation, we are entering a time

1 assignment with them.

2 Q. Let's talk about your contacts with the -- with
3 the two mineral owners you seek to pool. First, could
4 you discuss West American Corporation?

5 A. Yes. West American Corporation is unlocatable.
6 The records of the Public Regulation Commission show
7 that its corporate charter was revoked in 1958.

8 Also, when Lance Oil & Gas Company drilled
9 Fruitland Pole [phonetic] and Pitcher Cliffs [phonetic]
10 wells in the northeast quarter of Section 17, they
11 drilled these wells in 2004 and 2005, and it tried to
12 locate the company and found that it had filed for
13 bankruptcy, and there are no known successors.

14 Q. As to the Highway Department, have you been in
15 touch with them?

16 A. Yes. We sent a proposal letter, and this is
17 marked as Exhibit 4A. And I also followed up with an
18 e-mail, marked as Exhibit 4B, and also had multiple
19 phone conversations with their department attorney. And
20 he advised me that they do not wish to join in the well
21 or lease with us and to proceed with forced pooling.

22 Q. And when Lance force pooled the wells in
23 Section 17, they also had to force pool the Highway
24 Department?

25 A. Correct. Yes.

1 Q. In your opinion, has XTO made a good-faith
2 effort to obtain the voluntary joinder of the interest
3 on the well?

4 A. Yes.

5 Q. Could you identify Exhibit 5 and discuss the
6 cost of the proposed well?

7 A. Yes. Exhibit 5 is our AFE for the well. As
8 you can see on page 2 of the AFE, it shows our dry-hole
9 costs of about 2.775 million, our completion well costs
10 of 3.76 million, totaling about 6,522,000.

11 Q. And are these costs in line with the other
12 costs of wells drilled at this depth in this area of
13 New Mexico?

14 A. Yes.

15 Q. Do you request that XTO be appointed operator
16 of the well?

17 A. Yes.

18 Q. And do you have a recommendation for the
19 amounts which XTO should be paid for supervision and
20 administrative costs?

21 A. Yes. We request that \$10,000 a month be
22 allowed for drilling the well and \$1,000 a month be
23 allowed for producing the well.

24 Q. And are these amounts equivalent to amounts
25 normally charged by XTO and other operators in this area

1 for wells of this depth?

2 A. Yes.

3 Q. Do you request that the rates be adjusted
4 periodically as provided in the COPAS accounting
5 procedure?

6 A. Yes.

7 Q. And do you request that the cost plus
8 200-percent risk charge be assessed if any interest
9 owner goes nonconsent in the well?

10 A. Yes.

11 Q. And was the locatable party being pooled
12 notified of this hearing?

13 A. Yes. Exhibit 6 is an Affidavit of Notice to
14 the Highway Department, and also Exhibit 7 is the
15 Affidavit of Publication from the Farmington paper
16 regarding West American Corporation.

17 MR. BRUCE: And, Mr. Examiner, Exhibit 7 --
18 I don't have the full Affidavit of Publication yet, but
19 I would ask to submit that after the hearing. But
20 this -- as you can see, this was a fax from the Daily
21 Times showing it was published a couple of weeks ago.

22 EXAMINER GOETZE: So noted.

23 Q. (BY MR. BRUCE) Were Exhibits 1 through 7 either
24 prepared by you or under your supervision or compiled
25 from company business records?

1 A. Yes.

2 Q. In your opinion, is the granting of this
3 application in the interest of conservation and the
4 prevention of waste?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, I'd move the
7 admission of Exhibits 1 through 7.

8 EXAMINER GOETZE: Exhibits 1 through 7 are
9 accepted.

10 (XTO Energy Exhibit Numbers 1 through 7
11 were offered and admitted into evidence.)

12 MR. BRUCE: And I have no further questions
13 of the witness.

14 EXAMINER GOETZE: I have one question.

15 CROSS-EXAMINATION

16 BY EXAMINER GOETZE:

17 Q. Was there any reason why the Department of
18 Transportation was not willing to --

19 A. They didn't really give me a reason. I talked
20 to their attorney, Ken Baca, and he just advised me that
21 they don't want to lease or join the well. They have
22 very minimal interest. Their net acre is only comprised
23 of .95 acres, and I don't think they're just wanting to
24 go through it.

25 EXAMINER GOETZE: You think this is a

1 standard procedure by the Department of Transportation?

2 MR. BRUCE: Yeah. Mr. Examiner, I've force
3 pooled them several times, as the other attorneys over
4 here, and they just never respond and never sign a
5 lease. And they don't -- you know, they don't own a lot
6 of fee minerals, but certain of their rights-of-way were
7 granted as fee interests, so it's just something we have
8 to deal with.

9 EXAMINER GOETZE: No further questions for
10 this witness.

11 Any questions?

12 CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. Let's examine further on this, the Department
15 of Transportation. How do they own -- I thought the
16 state owned this land.

17 MR. BRUCE: And I can answer that. I mean,
18 Mr. Examiner, if you look at Exhibit 1B, the big plat in
19 front of you, you can see that over in Section 17, the
20 highway --

21 EXAMINER EZEANYIM: Okay. The highway.

22 MR. BRUCE: There are a couple of roads,
23 and the State Highway Department either condemned or
24 acquired rights-of-way over the years for the highway.
25 And usually if this gets a right-of-way, which doesn't

1 convey any minerals, but sometimes they got deeds from
2 the people who own the land and conveyed the minerals
3 with it.

4 EXAMINER EZEANYIM: How many of those -- I
5 thought the State Land Office controlled the minerals.

6 MR. BRUCE: The Land Office -- now, these
7 are directly owned by the Highway Department. And you
8 see it a number of times. Either a county highway
9 department or the State Highway Department will own the
10 minerals -- some minerals. I've force pooled them four
11 or five times over here (indicating), and as I said, I
12 know other attorneys have, especially down in like Eddy
13 County, where the Highway Department acquired certain
14 fee mineral interests.

15 Q. (BY EXAMINER EZEANYIM) Okay. Now, let's go
16 back to your plat there. Maybe that will be approved
17 with a nonstandard spacing unit. Initially, you applied
18 and excluded the south half of that northwest quarter.
19 But now, with your application, you're forced to
20 include -- I'm talking about this (indicating). If you
21 look at that, you see you marked it out.

22 A. Yes.

23 Q. The Division forced you to include this land,
24 then, before we could approve it. That's what the order
25 says, right?

1 A. Yes.

2 Q. Okay. Well, why did you exclude it?

3 A. Exclude that unit --

4 Q. Why did you exclude this? I mean, you know
5 your well was -- that 80 acres. Why did you exclude it
6 in the first place when you wanted to get this NSP?

7 A. Well, we excluded it because the nonstandard
8 unit we had applied for -- because a standard unit for
9 the Basin Mancos gas pool is 320 acres, and we had to
10 exclude that because this southern half of the northwest
11 quarter of Section 16 is already a standard Cha
12 Cha-Gallup unit. So we had to apply for a nonstandard
13 unit comprising of the northeast quarter of Section 16
14 and the northern half of the northwest quarter of
15 Section 16. We had to apply for a nonstandard Basin
16 Mancos unit for that. And then for the northeast
17 quarter of Section 17, which is 160 acres, we had to
18 apply for a nonstandard unit for the Basin Mancos gas
19 pool. And those two nonstandard Basin Mancos gas pools
20 have been coupled with the Cha Cha-Gallup pool to form
21 the project area.

22 Q. I know about the Cha Cha and the Mancos. Can
23 you understand what I'm asking? I mean, if I look at
24 that well -- part of it went through that 80-acre that
25 you didn't want in the first place, whether it went

1 through Cha Cha or not. So I'm assuming that -- I mean,
2 the examiner who issued this excluded it. What could
3 you have done? Would you have come back and included it
4 or something, because I read the order. You were forced
5 to include that 80 acres.

6 A. Correct.

7 Q. Initially, yeah, you were forced to do it. I
8 want to understand why you were forced to do it when you
9 know your well was within -- penetrate those 80 acres.

10 A. Why -- so you're asking why we were forced --

11 Q. Yeah. Why was it excluded in the first place?
12 You know, your order says: This order will be approved
13 provided you add that 80 acres. Right? Okay. Now, why
14 did you exclude it in the first place?

15 A. Well, because they wanted -- they just
16 wanted -- because the nonstandard unit is just for the
17 Basin Mancos gas pool. We didn't have to do a
18 nonstandard unit for the Gallup.

19 Q. Okay. I understand that. If you wanted to
20 drill that well now, simply you could have avoided those
21 80 acres, right?

22 A. We could have avoided -- no --

23 Q. You could have avoided those 80 acres, because
24 right now -- look at it. If you look at it, your well
25 went through those 80 acres that were avoided. You did

1 this (indicating), right?

2 A. Correct.

3 Q. You know, remember, I'm trying to get the
4 information, so we can make a decision here.

5 A. Okay. Yes, sir.

6 Q. Maybe you're not understanding. This 80 acres
7 here, why did you not apply for it when you wanted to
8 apply -- you can apply for a whole section, a whole --
9 two sections, but you proposed those 80 acres on the
10 ground that is in the Cha Cha. It's okay. But now, how
11 would you have constructed your well? If you excluded
12 that and the Division approved your 400 acres, excluding
13 those 80 acres, how would you have drilled your well?

14 MR. BRUCE: Mr. Examiner, if I could ask a
15 question of Mr. Zimmerman.

16 CONTINUED DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. It was always the intent to drill through those
19 80 acres?

20 A. Yes. Our wellbore penetrates under those 80
21 acres.

22 Q. And so the project area is 480 acres. The
23 nonstandard Mancos -- Basin Mancos is less than 480
24 acres --

25 A. Correct. Yes.

1 Q. -- approximately 400 acres?

2 A. Uh-huh.

3 MR. BRUCE: So it was always going to be in
4 the project area, Mr. Examiner.

5 EXAMINER EZEANYIM: The 80 acres?

6 MR. BRUCE: Yes, sir.

7 CONTINUED CROSS-EXAMINATION

8 BY EXAMINER EZEANYIM:

9 Q. Assume that the order said 80 acres, would you
10 have drilled your well through those 80 acres? That's
11 my point. Assuming that you -- here, Mr. Zimmerman has
12 said the northeast -- northeast of the north half of
13 Section 16 and the northeast of Section 17, excluding
14 the south half of that northwest quarter of Section
15 17 --

16 A. Oh. It's always our intentions --

17 Q. To do what?

18 A. -- to have our wellbore penetrate that southern
19 half of --

20 Q. Was that included in the information of the
21 notice of nonstandard proration unit? You didn't
22 include it in that. See, I really want to know why you
23 excluded it in the first place. You could get the
24 40-acre. Why did you exclude the 40-acre, or did the
25 Examiner force you? If you look at the back page of

1 that, "provided you include that 80 acres." Otherwise,
2 he couldn't have approved it. I don't know why.

3 CONTINUED DIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. Mr. Zimmerman, did you speak with Mr. Brooks
6 about this application?

7 A. Yes. Yes. And I was advised by the NMOCD
8 and -- and by -- to apply for two nonstandard units, the
9 Basin Mancos gas pool, and include -- and coupled with
10 that Cha Cha-Gallup pool, because all the wellbore was
11 going to penetrate through that 80 acres.

12 CONTINUED CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. Oh, yeah. You could have come back and did the
15 80 acres. Is that what you're saying? Is that what it
16 says there? I can see it there. Because I didn't see
17 how you could drill that well without the 80 acres, and
18 you couldn't drill it if it's not there, included with
19 your project area?

20 A. Yes.

21 Q. But now -- so you were advised to do that. I
22 think to streamline the whole thing, Mr. Brooks included
23 the said well. I'm going to approve it, but I'm going
24 to include those 80 acres.

25 Okay. Now, let's go back. Those 80 acres

1 are contained in the Cha Cha or something. Do you --
2 you own some interest in those 80 acres, right?

3 A. Correct.

4 Q. Now, let's go back to the whole section, 16 and
5 17. You talked about it in your -- in your testimony,
6 but I want you to be clear. What is your ownership in
7 the whole Section 17 and 18 [sic] of that township and
8 range?

9 A. Our whole -- our whole ownership of Section 17
10 and Section 16?

11 Q. Yeah.

12 A. We -- we own a majority of the interest -- in
13 the northeast quarter, we own a majority of the
14 interest, besides the two unleased mineral interests in
15 Section 17. And in the west half, XTO controls that
16 acreage.

17 Q. Equally?

18 A. In Section 17.

19 Q. Okay. Section 17, the west half? XTO controls
20 in the west half?

21 A. Yes. Yes.

22 Q. What about the south half? I mean, you already
23 have the west half. What about Section 16? Do you
24 control the south half, too?

25 A. Do we control the south half. We never

1 obtained --

2 Q. You don't have anything in the south half,
3 right?

4 A. Well, I'm sure -- I would have to go back and
5 get back to you at a later date, Mr. Examiner.

6 Q. You know, you -- you know that you can't form
7 any formation in there you want, but the pool is a
8 different question.

9 And as you know, I'm not an attorney, but
10 from the little I know, anybody can -- let's say, for
11 example -- let me say, for example, you wanted to drill
12 this well and have interest owner -- you don't have to
13 come here. But once you come here to form and then to
14 pool it, there are certain requirements that we have to
15 comply with to prevent waste and protect correlative
16 rights. If you do it on your volition, we have no
17 control, because that's what our rules say. But when
18 you come in here to form the unit and pool the unit,
19 then the question becomes: Can we then pool the unit
20 under the Oil and Gas Act? I'm not familiar -- pardon
21 me. I don't have the expertise at all, but at least I
22 have an idea of what is contemplated here.

23 MR. BRUCE: And if I can --

24 Q. (BY MR. BRUCE) Mr. Zimmerman, in the south half
25 of Section 16, it's basically XTO's 100-percent working

1 interest owner, correct?

2 A. Yes, sir, I believe so.

3 EXAMINER EZEANYIM: South half -- south
4 half of what?

5 MR. BRUCE: 16.

6 EXAMINER EZEANYIM: Okay.

7 Q. (BY MR. BRUCE) And then in the rest of 17,
8 other than unleased mineral interest owners, it's XTO's
9 working interest owner?

10 A. Yes.

11 MR. BRUCE: Other -- other than the
12 northeast quarter of Section 17, Mr. Examiner, and the
13 rest of 17, XTO is the unleased mineral interest owner.
14 So in other words, XTO controls the working interest in
15 virtually all of these two sections.

16 EXAMINER EZEANYIM: Other than the
17 northeast of section what?

18 MR. BRUCE: Look at 17, Mr. Examiner.

19 EXAMINER EZEANYIM: Okay. I'm looking at
20 17.

21 MR. BRUCE: Well, actually in all of
22 Section 17, other than some unleased mineral owners,
23 like we're dealing with here today, XTO is the working
24 interest owner. And the same thing in the south half of
25 Section 17, Mr. Examiner. So just from a land

1 standpoint, as Mr. Zimmerman testified, you know, nobody
2 is being intentionally excluded from the well unit. And
3 then we'll have a geologist and an engineer to discuss
4 why they want the nonstandard 480-acre project area.

5 EXAMINER EZEANYIM: I'm not quarreling with
6 that. I mean, I just -- the point is that after you
7 form -- we approved it. I mean, there is an approval
8 here, but the point is, if we just stop at approving the
9 north half spacing unit without talking about pooling
10 the unit, then that's a different question.

11 So anyway, I have more questions. One that
12 comes to my mind is about this 10,000. That's the
13 highest I've ever seen. Is there any way you can give
14 me information, so I can make a better recommendation on
15 that 10,000 drilling and 1,000 producing? Is there any
16 way I can get that information?

17 MR. BRUCE: Yeah. Mr. Examiner, I don't
18 know. I don't have a drilling engineer here at this
19 point, but we can certainly get some backup information
20 for you on that.

21 EXAMINER EZEANYIM: All right. That would
22 be good. I would be appreciative of that. I'm not
23 saying it's not right, but I need to see some evidence,
24 something to be able to convince anybody if I can make
25 the recommendation. Are they going to need that

1 recommendation? As you know, I've been here, and I
2 haven't seen anything go up to 10,000. I've only seen
3 7,000. So I need to know how did you come up with that.

4 MR. BRUCE: We'll get you information on
5 that.

6 Q. (BY MR. BRUCE) Mr. Zimmerman, is that the rate
7 set forth in the JOA?

8 A. Yes, it is.

9 EXAMINER EZEANYIM: Yeah. Anything that,
10 you know, would be -- at least we can understand what is
11 going on here. Don't get me wrong. That would -- to do
12 that would be difficult, and I know to produce is going
13 to be, too. So I understand what's going on, but I
14 wanted to get some information.

15 Q. (BY EXAMINER EZEANYIM) The well not been
16 drilled, right?

17 A. Correct. It has not been drilled.

18 Q. Okay. Now, under the rule that you submitted
19 your -- are your locations going to be standard after
20 the well is drilled in accordance with the Horizontal
21 Well Rule?

22 MR. BRUCE: The setbacks.

23 EXAMINER EZEANYIM: I know, but I'm asking
24 that question of the landman. Let me -- you have an
25 engineer, right?

1 MR. BRUCE: We have an engineer, but the
2 setbacks -- you know, in the Basin Mancos' rule, the
3 setbacks are 660 feet, and -- and that will be complied
4 with.

5 EXAMINER EZEANYIM: Oh, okay. So they're
6 going to be standard?

7 MR. BRUCE: Standard locations.

8 Q. (BY MR. EZEANYIM) And you couldn't locate all
9 the interest owners, right? You couldn't locate
10 everybody?

11 MR. BRUCE: There was -- West American
12 Corporation was unlocatable.

13 A. We could not locate them.

14 EXAMINER EZEANYIM: That's why you --

15 MR. BRUCE: They disappeared 45 years ago.

16 EXAMINER EZEANYIM: Escrow will be
17 required; is that correct?

18 MR. BRUCE: That is correct.

19 EXAMINER EZEANYIM: Do you have an API
20 number yet on this?

21 MR. BRUCE: Mr. Examiner, it is on Exhibit.

22 1A.

23 EXAMINER EZEANYIM: I think this is all I
24 have, so you may step down.

25 THE WITNESS: Thank you.

1 CHARLES OLIVER MUSEKAMP,

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name and city of
7 residence?

8 A. Charles Musekamp, Fort Worth, Texas.

9 Q. Would you spell your last name for the
10 Examiners?

11 A. M, as in Mary, U-S-E-K-A-M, as in Mary, P, as
12 in Paul.

13 Q. Have you previously testified before the
14 Division?

15 A. No, I have not.

16 Q. And who do you work for and in what capacity?

17 A. XTO Energy. I'm the associate geologist in the
18 San Juan Basin.

19 Q. Could you summarize your educational and
20 employment background for the Examiners?

21 A. I have a bachelor's degree in finance from
22 Miami University of Ohio. I have a master's degree in
23 geology from Colorado State University. I have two
24 years' experience in the oil and gas industry, one year
25 internship for Platte River Associates in Boulder,

1 Colorado, and one year with XTO Energy.

2 Q. Does your area or responsibility at XTO include
3 this portion of northwest New Mexico?

4 A. Yes.

5 Q. And are you familiar with the geologic matters
6 involved in this application?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Musekamp as an expert petroleum geologist.

10 EXAMINER GOETZE: So qualified.

11 Q. (BY MR. BRUCE) What is Exhibit 8, Mr. Musekamp?

12 A. Exhibit 8 is a 12-section location map showing
13 our wellbore pads. The surface-hole and bottom-hole
14 location are identified on the wellbore path. Also
15 shown are offsetting wells, and those wells highlighted
16 in yellow are the Gallup/Mancos producing wells.

17 Q. What is Exhibit 9?

18 A. Exhibit 9 is a type log in the southwestern
19 quarter of the northwestern quarter of Section 16 just
20 south of our wellbore. You can see the gamma ray
21 resistivity curves to the right. Our target interval is
22 approximately six feet gross thickness.

23 Q. And is that the primary target for the well?

24 A. That's correct.

25 Q. On the vertical wells, were there other -- in

1 the wells in this area, were there other Gallup
2 intervals tested other than the target zone?

3 A. Yes.

4 Q. And could you identify Exhibit 10 for the
5 Examiner?

6 A. Exhibit 10 is a two-page exhibit. The first
7 page shows a west-east cross section, a three-well cross
8 section, just south of the wellbore path. If you turn
9 the next page, it shows the three wells from east to
10 east, and then our target interval. This
11 stratigraphic -- it's a stratigraphic cross section hung
12 on the upper Gallup member, and you can see that the
13 target interval in the southern part of the
14 stratigraphic cross section is laterally continuous
15 across the field.

16 Q. And what is Exhibit 11?

17 A. Exhibit 11 is a subsea structure map on top of
18 the Gallup Marker 5. Shown is 25-foot contour
19 intervals. You can see there is approximately a
20 one-degree dip towards the west, and so we'll be
21 drilling toe up, according to the structure map.

22 Q. And having the bottom-hole location was
23 preferable for draining?

24 A. Correct.

25 Q. Finally, what is Exhibit 12?

1 A. Exhibit 12 is a production bubble map of all
2 the Gallup and Mancos producers in this 12-section map.
3 You can see we're trying to maximize the length of the
4 wellbore by going to the south in Sections 16 and 17,
5 closer to the Gallup/Mancos producers.

6 Q. And so you're going to offset the major
7 producers in this Cha Cha-Gallup pool?

8 A. That's correct.

9 Q. From a geologic standpoint, will each quarter
10 section in the well unit contribute more or less equally
11 to production?

12 A. Yes.

13 Q. And were Exhibits 8 through 12 prepared by you
14 or under your direction?

15 A. Yes.

16 Q. In your opinion, is the granting of this
17 application in the interest of conservation and the
18 prevention of waste?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I move the
21 admission of Exhibits 8 through 12.

22 EXAMINER GOETZE: 8 through 12 are
23 accepted.

24 (XTO Energy Exhibit Numbers 8 through 12
25 were offered and admitted into evidence.)

1 MR. BRUCE: I have no further questions of
2 the witness.

3 CROSS-EXAMINATION

4 BY EXAMINER GOETZE:

5 Q. One clarification. On Exhibit 11, what is the
6 datum again?

7 MR. BRUCE: The structure map.

8 A. The datum is subsea.

9 EXAMINER GOETZE: I have no further
10 questions.

11 Mr. Ezeanyim?

12 CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. Go back to Exhibits 8 and 9. I didn't get what
15 you testified. Look at Exhibit Number 9. What did you
16 say about that exhibit? What is going on there?

17 A. This is the type log, Mr. Examiner.

18 Q. Huh? I mean Number 8.

19 A. Number 8. This just shows our wellbore path in
20 Section 16 to Section 17. You can see the surface-hole
21 and bottom-hole location. We're drilling towards the
22 west. All the wells shown on the map are all the offset
23 wells, and those highlighted in the yellow color are all
24 the Gallup/Mancos producing intervals.

25 Q. And they're vertical wells?

1 A. Correct.

2 Q. Now, what are you there for? Are you looking
3 for oil or gas?

4 A. (Indicating.)

5 Q. What are you looking for? Are you looking to
6 get oil or gas? What are you looking for?

7 A. Both. Both hydrocarbons.

8 Q. Both hydrocarbons. Okay.

9 Now, you talked about Exhibit Number 11.
10 You want to go updip?

11 A. That's correct.

12 Q. Yeah. Why?

13 A. It helps our drainage when you fill an updip
14 well. By gravity, you just get more drainage from the
15 reservoir.

16 Q. What is your target information here? You
17 talked about it? What is it?

18 A. It is a coarse-grade sandstone.

19 Q. What?

20 A. A coarse-grade sandstone.

21 Q. What is the name of that? Let's go back to
22 Exhibit Number -- Exhibit Number 9. Where is your
23 target?

24 A. The target is the red line approximately at
25 4,675, at the bottom of the type log. And, again, it's

1 a six-foot cross section.

2 Q. And this is in the Mancos or Gallup? What is
3 it? Is it Mancos or Gallup, because it is considered
4 Mancos and Gallup. Is this in the Gallup or Mancos?

5 A. It's -- it'll be a section within the Mancos.
6 So the Gallup is a section within the Mancos Unit.

7 EXAMINER EZEANYIM: You have anything
8 further?

9 EXAMINER GOETZE: No, I have no further
10 questions.

11 We're done with this witness. Thank you.

12 THE WITNESS: Thank you.

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you state your name for the record?

19 A. Kameron Fivecoat.

20 Q. And where do you reside?

21 A. Aledo, Texas.

22 Q. Who do you work for and in what capacity?

23 A. I am a reservoir engineer in the San Juan Basin
24 for XTO Energy.

25 Q. Have you previously testified before the

1 Division?

2 A. No, I have not.

3 Q. Would you summarize your educational and
4 employment background?

5 A. I have a bachelor of science in petroleum
6 engineering from the University of Texas at Austin, and
7 I have about nine years of experience as both a
8 production and reservoir engineer.

9 Q. How long have you worked for XTO?

10 A. I've worked for XTO a total of four years.

11 Q. Does your area of responsibility at XTO include
12 this portion of northwestern New Mexico?

13 A. Yes, it does.

14 Q. And are you familiar with the reservoir matters
15 involved with this proposed well?

16 A. Yes, I am.

17 MR. BRUCE: Mr. Examiner, I tender
18 Ms. Fivecoat as an expert in petroleum -- or reservoir
19 engineer.

20 EXAMINER GOETZE: So qualified.

21 Q. (BY MR. BRUCE) Just a couple of questions for
22 you. In getting to one of Mr. Ezeanyim's questions, do
23 you anticipate recovering both oil and gas --

24 A. Yes, we do.

25 Q. Is this a more -- well, in looking at the

1 production bubble map that Mr. Musekamp had, it appears
2 that offsetting production does have quite a bit of oil
3 in it; does it not?

4 A. Yes. This part of the Basin is in the oil
5 window, but as you can see from the bubble map, there
6 are some wells in this area that produce quite a bit of
7 gas. So it does vary, but we are hoping for this to be
8 more of an oil producer than a gas producer.

9 Q. In this day and age, the oil is a little more
10 valuable than the gas?

11 A. Exactly.

12 Q. And turning to Exhibit 13, just very briefly,
13 what is Exhibit 13?

14 A. Exhibit 13 is our horizontal well directional
15 planning report. It shows the directional path of the
16 horizontal well.

17 Q. And the final page of the exhibit is probably
18 the most illustrative; is it not?

19 A. Yes. It's the summary.

20 Q. So it is going to make a couple of bends in the
21 horizontal path as you drill the well, correct?

22 A. Right. We're drilling vertically to a kick-off
23 point around 4,200 feet. Then we make our curve and
24 land at approximately 4,750 feet, true vertical depth,
25 and we drill to a measured depth of 11,243 feet, which

1 is a TVD of 4,758 feet.

2 Q. How many completion stages will there be?

3 A. This will be an 18-stage completion.

4 Q. And do you have an idea as to volume of the
5 fluids, sand --

6 A. This is going to be an 18-stage nitrogen foam
7 frack with approximately 3.6 million pounds of sand
8 total, which is approximately 200,000 pounds of sand per
9 frack stage. There will be a total of 32 million cubic
10 feet of nitrogen used and approximately 16,000 barrels
11 of water during completion.

12 Q. Was Exhibit 13 compiled from company business
13 records?

14 A. Yes.

15 Q. And in your opinion, will the granting of this
16 application be in the interest of conservation and the
17 prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I move the
20 admission of Exhibit 13.

21 EXAMINER GOETZE: Exhibit 13 is accepted.
22 (XTO Energy Exhibit Number 13 was offered
23 and admitted into evidence.)

24 MR. BRUCE: And I have no further questions
25 of the witness.

1 EXAMINER GOETZE: I have no questions at
2 this time.

3 Mr. Ezeanyim?

4 CROSS-EXAMINATION

5 BY EXAMINER EZEANYIM:

6 Q. Your testimony is dependent on how you're going
7 to construct the well. And tell me how you could
8 produce more liquid than gas, or what would you do to
9 produce more liquid than gas, because, yeah, we want
10 more oil. If you don't find oil, what would you do?

11 A. Well, in the San Juan Basin, it's really more a
12 function of where you are in the Basin. The deeper,
13 more central part of the Basin is dry gas, and as you
14 move out towards the fringes, you get more into the oil
15 window. So I'm not really sure there is anything we can
16 do to produce more oil besides where we're located in
17 the Basin, where we choose to drill our well in the
18 first place.

19 Q. I don't mean to put you on a pedestal, because
20 as you know, I'm interested in getting the oil and gas.
21 You know, don't get me wrong. I like gas; I use gas,
22 but it's not paying off. It's \$2.50. But now, if you
23 get more oil instead of gas -- so that's why I'm asking
24 you the question, not to -- but I thought you told me,
25 Well, I will do this and do this and get more oil than

1 gas. Because we are still struggling [sic] with the
2 Mancos, the Gallup, a lot of associated pools out there,
3 and we want to see if we can develop a method of
4 production scheme to produce more oil than gas. You
5 don't want to get gas after you spend 7 million, get
6 only gas. Depends on how much you get to be able to pay
7 off. So that's why I ask you the question, you know,
8 what we could do to get the associated [sic] oil and
9 make more money. If we make more money -- it's not a
10 question. We are discussing.

11 I have no further questions.

12 CROSS-EXAMINATION

13 BY EXAMINER GOETZE:

14 Q. And I'll reiterate: Have you had success in
15 the past in the Basin using this type of program?

16 A. We have just recently drilled our first
17 horizontal in the Mancos. We're awaiting completion at
18 this time, so we don't actually have any production data
19 on that well.

20 Q. That's the only question I had. Thank you.

21 EXAMINER GOETZE: Done with this witness?

22 MR. BRUCE: Yes. And that is all I have in
23 this matter, Mr. Examiner. We will provide a little
24 data on the overhead rates and --

25 EXAMINER GOETZE: You also need the

1 affidavit.

2 MR. BRUCE: -- the Affidavit of
3 Publication.

4 MR. EZEANYIM: And that -- and that could
5 be brought in without continuing the case.

6 We can take the case under advisement.

7 MR. BRUCE: Yes.

8 EXAMINER EZEANYIM: You will supply those?

9 MR. BRUCE: That's correct.

10 EXAMINER GOETZE: We are continuing this
11 case under advisement. Thank you.

12 (Case Number 14980 concludes, 9:00 a.m.)

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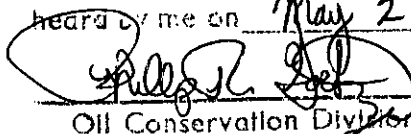
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14980,
heard by me on May 2 2013.

 , Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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CERTIFICATE OF COURT REPORTER

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

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

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

Mary Hankins

MARY C. HANKINS, CCR, RPR
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