

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 AMENDED APPLICATION OF XTO ENERGY, CASE NO. 15844
8 INC. FOR APPROVAL OF THE EXPANSION
9 OF THE JAMES RANCH UNIT, EDDY COUNTY,
10 NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 November 8, 2017

14 Santa Fe, New Mexico

15

16 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
17 DAVID K. BROOKS, LEGAL EXAMINER

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21 This matter came on for hearing before the
22 New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Wednesday, November 8, 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.

23

24 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20

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22 XTO Energy, Inc. Exhibit Numbers 10 through 15 34

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1 (11:05 a.m.)

2 EXAMINER McMILLAN: I would like to call

3 Case Number 15844, amended application of XTO Energy,

4 Incorporated for approval of the expansion of the James

5 Ranch Unit, Eddy County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,

8 from the Santa Fe office of Holland & Hart, representing

9 the Applicant today.

10 EXAMINER McMILLAN: Any other appearances?

11 MR. BRUCE: Mr. Examiner, Jim Bruce of

12 Santa Fe representing MRC Permian Company and MRC

13 Permian Lke Company, LLC. I have no witnesses.

14 EXAMINER McMILLAN: Okay. If the witnesses

15 would please stand up and be sworn in at this time.

16 (Mr. Hilger and Mr. Anderson sworn.)

17 MS. KESSLER: May I proceed?

18 EXAMINER McMILLAN: Are there any pre --
19 any statements by anybody?

20 MS. KESSLER: No.

21 EXAMINER McMILLAN: Please proceed.

22 MS. KESSLER: Thank you.

23 I'll call my first witness.

24 KENNETH G. HILGER,
25 after having been previously sworn under oath, was

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1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MS. KESSLER:

4 Q. Will you please state your name for the record
5 and tell the Examiners by whom you're employed and in
6 what capacity?

7 A. My name is Kenneth Hilger, and I am employed as
8 a division landman for XTO in Fort Worth.

9 Q. Have you previously testified before the Oil
10 Conservation Division?

11 A. I have not.

12 Q. Can you please outline your education?

13 A. I'm a 1990 graduate from the University of
14 Oklahoma with a degree in petroleum land management.

15 Q. And what has your work experience been since
16 that time?

17 A. In January of '91, after I graduated from the
18 University of Oklahoma, I was hired at Exxon as a Texas
19 landman. In September of 2001, I came to the Rockies
20 asset -- Rockies of Exxon. I dealt with federal units,
21 leases, state and private leases. And in March of --
22 excuse me -- July of 2013, I was transferred to XTO
23 where I continued those federal duties and then was
24 assigned to this BOPCO asset in southeast New Mexico.

25 Q. What is your experience in the Permian Basin?

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1 A. Limited until this transfer.

2 Q. Okay. And your primary responsibilities, as I
3 understand, have been related to federal units; is that
4 correct?

5 A. Since 2001.

6 Q. Okay. Are you a member of any professional
7 associations?

8 A. I'm a member in good standing of the AAPL, and
9 I hold a CPL, which is a certified professional
10 certification.

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

13 A. I am.

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

16 A. I am.

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

19 MR. BRUCE: No objection.

20 EXAMINER McMILLAN: So qualified.

21 Q. (BY MS. KESSLER) Mr. Hilger, could you please
22 turn to Exhibit 1 and explain what XTO seeks under this
23 application?

24 A. Exhibit 1 shows us the James Ranch Unit, the
25 current boundary of the James Ranch Unit. And the

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1 expansion area is shaded in red, and we seek to cover
2 the area shaded in red.

3 Q. The blue highlighting didn't come out very
4 well, but there is a boundary around the James Ranch
5 Unit and a number of wells drawn in, correct?

6 A. Correct.

7 Q. Can you please discuss -- I'm looking at the

8 expansion area, and I'm looking at Section 34. And it
9 looks like the southeast quarter has been left out of
10 this unit. Can you please explain that?

11 A. This expansion area was prepared ahead of a
12 federal sale that occurred wherein XT0 acquired that
13 federal lease. This would be the southeast quarter of
14 Section 34. And it was an error on our part to not
15 update this map, but that lease is now owned by XT0.

16 Q. And that acreage was included in the amended
17 application, correct?

18 A. Correct.

19 Q. So the only problem here is that it does not --
20 it is not reflected in this exhibit?

21 A. That's correct.

22 Q. How much acreage is being added?

23 A. 13,223 acres.

24 Q. And is that a mixture of federal, state and fee
25 lands?

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8

1 A. It is.

2 Q. And the amended application includes an acreage
3 description; is that correct?

4 A. It does.

5 Q. Does this unit cover all depths?

6 A. It does.

7 Q. Is Exhibit 2 the unit agreement and exhibits?

8 A. I'm sorry?

9 Q. Is Exhibit 2 a copy of the unit agreement and
10 attached exhibits?

11 A. Yes.

12 Q. Can you please review how this unit agreement
13 treats the participating areas?

14 A. The participating areas are approved by the
15 authorities at the office of the BLM, after which --
16 once a well has been successfully drilled on unit
17 acreage and shown to be capable of producing and paying
18 quantities for a term between four to six months, after
19 that, the well is recognized as a paying quantities
20 well. Then the BLM will -- will agree to the boundary
21 that was typically identified by the operator as the
22 area that will be drained by the continued operation of
23 that well and associated with the participating area.
24 Q. Does this unit agreement require development
25 plans to be submitted to working interest owners and

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9

1 also approved by working interest owners?

2 A. It does.

3 Q. Does it also require the development plans be
4 submitted and approved by the BLM and the State Land
5 Office?

6 A. It does.

7 Q. How long has this unit been in place?

8 A. 64 years. It was effective in 1953.

9 Q. And if I turn to Exhibit 3, this is Division
10 Order R-279, and this is the order from the Oil
11 Conservation Commission initially approving this unit;
12 is that correct?

13 A. Correct.

14 Q. And it approved development in principal?

15 A. Correct.

16 Q. Following this approval in 1953, was the unit
17 subsequently contracted?

18 A. It was.

19 Q. Why is that?

20 A. On the east side of the James Ranch Unit in the
21 next township was identified the WIPP area. The WIPP
22 island, I'll call it. That was an area where
23 radioactive waste material was identified. There was a
24 depository for that type of material identified by the
25 BLM, and it's -- the radiation in that capacity resulted

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1 in a request for us to contract the unit to exclude that
2 acreage.

3 Q. If I turn to Exhibit 4, is this a letter to the
4 Commissioner of Public Lands requesting contraction for
5 the reasons you've just outlined?

6 A. Correct.

7 Q. And, again, this was due to condemnation
8 proceedings initiated by the federal government,
9 correct?

10 A. That's correct.

11 And in the bottom paragraph of this, you'll
12 note also that Section 31 was limited from the surface
13 to 6,000 feet for development as well, although it was
14 not asked or requested to be excluded.

15 Q. And if I look at page 4 of Exhibit 4, this gray
16 acreage was the area that was contracted out of the
17 unit, correct?

18 A. That is correct. Yes.

19 Q. Does the current unit background boundary,
20 excluding this gray average, conform with the boundary
21 units today?

22 A. It does.

23 Q. How many acres in the unit today?

24 A. 15,094.

25 Q. When and from whom did XTO acquire the unitized

11

1 area?

2 A. It was -- the closing occurred early this year,
3 2017, from the BOPCO/Bass entities in Fort Worth.

4 Q. And XTO is now the operator?

5 A. Correct.

6 Q. Who initiated the expansion?

7 A. It was initially initiated from the BOPCO
8 group, and subsequently preliminary approvals were
9 provided by the State Land Office and the BLM in 2015.

10 Q. And was this matter declined due to the sale of
11 this unitized area to XTO?

12 A. That is correct.

13 Q. And XTO is now pursuing the expansion approval,
14 correct?

15 A. That is correct.

16 Q. Have all of the working interest owners agreed
17 to the expansion?

18 A. We have -- we have an 85 percent approval
19 response. There are three main individual companies
20 that are -- I'm waiting on their final ratification to
21 come back. ConocoPhillips and Chevron have indicated to

22 me that they are routing for international approvals,
23 ratifications and joinders, and then the MRC Permian
24 Company has been talking with us about alternate ways in
25 which their acreage can be committed to the unit, either

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1 by trade or other means.

2 Q. So there are three companies who have not
3 ratified the expansion, but you expect two of them to?

4 A. I do. Yes.

5 Q. And you currently have effective control over
6 85 percent of this unit, correct?

7 A. Yes. That's correct.

8 Q. Have you visited with the BLM and the State
9 Land Office about this expansion?

10 A. Yes, I have.

11 Q. Exhibit 5 contains two letters from the State
12 Land Office. The first is dated February 9th of 2015,
13 correct?

14 A. Correct.

15 Q. And this is the initial approval, preliminary
16 approval, letter from the State Land Office that was
17 sent to BOPCO, correct?

18 A. Correct.

19 Q. And the last page of Exhibit 5 is an addendum

20 to the preliminary approval. Can you please explain
21 this letter?

22 A. This letter was the result of the meeting that
23 I and our geologist had with the State Land Office, and
24 this was -- this was held to update the Commissioner and
25 his staff of the current status of the preliminary

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1 approval and the fact we're pursuing this as XTO and to
2 identify the additional acreage, 160 acres, and that
3 there was still alignment with the State Land Office.

4 Q. What is Exhibit 6?

5 A. Exhibit 6 is the preliminary approval from the
6 Bureau of Land Management.

7 Q. Okay. And, again, there are actually two
8 letters in this exhibit. One is dated February 23rd of
9 2015, and the second is dated August 20th of 2015. Can
10 you please explain the difference between these two
11 letters?

12 A. In the February 2015 letter, the BLM provided a
13 series of stipulations that were going to apply to an
14 approved expanded area, and one of those stipulations
15 required five commitment wells to be drilled in the
16 expansion area. The letter in August of the same year,

17 the second letter, subsequently reduced the five
18 commitment well count to four, from four separate
19 islands. So the BLM said, You have to drill four wells
20 now, not five.

21 Q. And that's reflected in the later August 20th
22 letter?

23 A. It is.

24 Q. Is the BLM also aware of the additional 160
25 acres that have been added to the unitized area?

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14

1 A. Yes, they are.

2 Q. Let's look at Exhibit 7. Is this a development
3 plan for the expansion area?

4 A. It is.

5 Q. Have the BLM and the State Land Office reviewed
6 the proposed development plan?

7 A. They have.

8 Q. Can you please walk us through this exhibit
9 starting with identifying the expansion area?

10 A. Okay. The expansion area is identified in the
11 red-dashed outline, and you'll note the acreage -- the
12 acreage amount is set to the side, 13,233. The lower
13 portion in the blue outline is the current James Ranch
14 area, and it's set at 1,594. And the colors of the map

15 indicate the type of ownership. The brown acreage is
16 fee owners privately sold. The blue acres are State
17 Land Office acres, and anything else that's yellow or
18 white on in this map indicates BLM federal minerals.
19 The small green areas that you see on the map are
20 existing drilling islands that are authorized. The
21 red -- the orange areas that you see not on the map are
22 proposed drilling islands that have not yet been
23 authorized, and the two red areas that you see in this
24 exhibit are drilling islands that XTO would intend to
25 propose for approval in a development scenario.

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1 Q. And this plan is intended to show development
2 over the next three to five years; is that correct?

3 A. That's correct.

4 Q. And it only indicates one horizon. Is that
5 also correct?

6 A. That is correct.

7 Q. Does the existing James Ranch Unit currently
8 have one dedicated rig?

9 A. It does.

10 Q. Over the course of the development plan, does
11 XTO intend to or anticipate dedicating four total rigs

12 to the expansion area and the existing James Ranch Unit?

13 A. It does. The way the drilling islands are set
14 currently, we intend to drill several wells from one
15 island, then move the rig off to another island. And
16 while it's moved to the new island, go back and complete
17 the wells that are drilled and then circulate continuous
18 development in that conceivable fashion.

19 Q. Why did XTO file this application before the
20 Division for approval of the expansion area?

21 A. It was a requirement for the State Land Office
22 and BLM.

23 Q. In both of their preliminary approval letters,
24 it's a requirement?

25 A. That's correct. Yes.

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1 Q. Did XTO provide notice of this hearing to the
2 affected parties?

3 A. Yes, it did.

4 Q. And those affected parties would include
5 working interest owners, royalty owners, overriding
6 royalty owners, the BLM and the State Land Office; is
7 that correct?

8 A. That's correct.

9 Q. Is Exhibit 8 an affidavit prepared by my office

10 with attached letters and green cards reflecting notice
11 to all of these entities?

12 A. Yes, it is.

13 Q. And did XTO also publish notice of this
14 hearing?

15 A. Yes.

16 Q. And is that Affidavit of Publication included
17 as Exhibit 9?

18 A. It is.

19 Q. Finally, Mr. Hilger, this is a voluntary unit;
20 is that correct?

21 A. It is.

22 Q. And do you intend to continue negotiations with
23 the Matador entities?

24 A. Yes. I've been very clear with my counterpart
25 at MRC that we will continue to look for ways that we

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17

1 can reach an amicable resolution for their desire to not
2 want to maintain a position in the expanded area. And
3 one of the issues that we continue to discuss with MRC
4 is the fact that this area is significantly affected by
5 potash mining. And the exhibit we just briefed that
6 showed the drilling islands is an exhibit that helps

7 illustrate not where the mines are at but where the
8 islands are currently seen as potentially enforceable,
9 if I can say it like that.

10 The MRC acreage is located -- it overlays a
11 significant area of current mines, and so it's going to
12 be -- it's going to be a difficult scenario to try and
13 operate that acreage as an independent tract.

14 Q. But in the event, Mr. Hilger, that MRC or the
15 Matador entities do not ratify this unit agreement,
16 their interests -- their tracts will not be committed to
17 the unit?

18 A. It's a voluntary unit. Unless they commit to
19 the unit, they are not committed to the unit.

20 Q. Thank you.

21 Lastly, were Exhibits 1 through 7 compiled
22 by you or prepared under your direction and supervision?

23 A. Yes, they were.

24 MS. KESSLER: Mr. Examiner, I'd move
25 Exhibits 1 through 9, which include my two notice

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1 affidavits.

2 MR. BRUCE: No objection.

3 EXAMINER McMILLAN: Exhibits 1 through 9
4 may now be accepted as part of the record.

5 (XTO Energy, Inc. Exhibit Numbers 1 through
6 9 are offered and admitted into evidence.)

7 CROSS-EXAMINATION

8 BY MR. BRUCE:

9 Q. Mr. Hilger, do you still have Exhibit 7 in
10 front of you?

11 A. I do.

12 Q. Without leading you too much, if you look at 22
13 South, 29 East, is the MRC acreage in Sections 11 and 12
14 the white areas in Sections 11 and 12?

15 A. Yes.

16 Q. Okay. And the printing is pretty small, but I
17 think that's Tract 35 [sic] in the expanded unit area?

18 A. Yes, sir.

19 Q. I need stronger bifocals.

20 MS. KESSLER: Christmas is coming up.

21 (Laughter.)

22 Q. (BY MR. BRUCE) Now, in looking at the
23 development plan, because this is -- it would be a unit
24 area, you have proposed wells crossing MRC's acreage. I
25 presume that XTO would want to be operator of the wells

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1 containing MRC's acreage?

2 A. That is correct.

3 Q. And -- and just so -- you know, good things
4 never go away. I used to work for Bass, and I was --

5 A. Okay.

6 Q. -- back in 2014 and 2015, I was working with
7 them on the expansion of this area.

8 A. Okay.

9 Q. But within a unit like this, usually the BLM
10 would require that even as to uncommitted acreage, that
11 XTO, the unit operator, would operate anything within
12 the unit boundaries; is that correct?

13 A. Yes, to answer your question. And I think some
14 of that reasoning has to do with the potash and the
15 availability, or limited availability as it were, of
16 drilling island locations.

17 Q. And one of the things that you and MRC's land
18 department were discussing was a trade of acreage; is
19 that correct?

20 A. Right.

21 Q. Is that one way to solve this issue?

22 A. Correct.

23 Q. Is XTO still willing to continue negotiating
24 with MRC along those lines?

25 A. We are. There is a proposal on my counter's



1 desk at MRC as we speak.

2 Q. Oh. And the unit agreement -- Exhibit B to the
3 unit agreement that you submitted as an exhibit, I think
4 Exhibit 2, that does contain all of the acreage in the
5 unit area as proposed to be expanded; is that correct?

6 A. Exhibit 2 is the original unit agreement that
7 was effective in 1953, and it does not currently include
8 the expansion area because --

9 Q. Right. But what you attached --

10 A. Oh, yes. Yes.

11 Q. Yeah.

12 A. Correct. Correct.

13 Q. And like you said, the unit -- the unit area is
14 quite -- quite aged. Is the original unit operating
15 agreement still in place?

16 A. Yes.

17 Q. That was pre-AAPL form; was it not?

18 A. Yes. Yes, it was.

19 And typically the unit operating agreements
20 that are attached to modern unit agreements are not AAPL
21 forms either. They're Rockies form agreements.

22 Q. But it is not what you would call a modern form
23 unit agreement?

24 A. It's not something you would sign in 2017.

25 Q. Thank you, Mr. Hilger.

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21

1 A. Certainly.

2 CROSS-EXAMINATION

3 BY EXAMINER McMILLAN:

4 Q. Is there any significance to the 85 percent in
5 the unit in the operating agreement?

6 A. That's the required person the BLM requires for
7 effective control of the unit.

8 Q. I don't know if you're the right person to ask
9 or not. Who is going to discuss the drilling program?

10 A. Today?

11 Q. Yeah.

12 A. Well, our geologist is prepared to have some
13 discussion in that regard.

14 Q. Okay. So I'm not clear. What's going to
15 happen if MRC doesn't agree that these acres are going
16 to be contracted and it's essentially going to exclude
17 Sections 11 and 12?

18 A. That was Exhibit --

19 Q. I'm looking -- I think I'm looking at Exhibit
20 7.

21 A. Okay.

22 Q. I was never clear on that point.

23 A. MRC's acreage in a voluntary unit will be
24 treated no differently after the expansion of the area
25 as it is before the expansion of the area. They'll have

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22

1 the continuing opportunity in a voluntary unit by not
2 committing to go develop that acreage in their timeline
3 and as they see as fit.

4 Q. So I'm still not clear. Will that be part of
5 the unit?

6 A. It would be only geographically part of the
7 unit because the area would be within the boundaries,
8 but it would not be treated as a committed tract. It
9 would be a window, if you will, and federal units are
10 typically handled in that fashion.

11 Q. Okay. So either unit agreement, you could
12 simply drill -- if you drill four Delaware wells, is
13 that going to hold everything, or is it the deepest
14 horizon, or how does that work? I'm not clear on that
15 point.

16 A. Well, the -- typically, when a unit is
17 authorized, it has a drilling commitment to establish
18 production in the unit area, and that's in the unit

19 agreement itself. It's defined. And once you meet that
20 and you have -- you have to continuous develop until
21 that happens. And in this case, if we expand this,
22 we're going to have a four-well commitment requirement.

23 Q. Any pool? Irrespective of pools or formations?

24 A. My expectation would be that it would -- they
25 would allow us -- we're not dictated where we have to

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23

1 drill these wells. We're allowed the flexibility to
2 say, Okay, we will drill four wells as a commitment, and
3 we'll drill them into the reservoir or the pool. That
4 is -- how should I say it? It's our directive. It's
5 where we believe we have the best chance of succeeding
6 and meeting the public requirements of the unit.

7 CROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. Is this unit all depths?

10 A. Yes, sir. Yes, sir.

11 This map, again, is one horizon. This is
12 not going to be the ultimate, final development look.
13 It is a development look today for one horizon. Over
14 the next three to five years, when we talk about geology
15 and geoscience, I think we can address any more

16 questions about the substructure you may have in that
17 regard, targeting and such.

18 Q. I have not looked at this unit agreement and
19 I'm not familiar with it, so these are basic questions.

20 Normally in a federal unit, if productions
21 are established -- production is established and it's
22 commercial, they make a commercial determination and
23 they establish a participating area for that formation,
24 right?

25 A. You are correct.

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24

1 Q. Okay. And then at some point in time, the unit
2 agreement provides that those tracts that have not been
3 included in participating areas will be contracted out
4 of the unit?

5 A. There is contractual language in many of the
6 modern form unit agreements.

7 Q. But there is not in this one?

8 A. No, sir.

9 Q. Okay.

10 A. But one of the conditions of our continuous
11 development is the submission annually of plans of
12 development --

13 Q. Right.

14 A. -- which becomes, in essence, a promise, if you
15 will, that we want to do this.

16 Q. Right.

17 A. Now, things change. It might change. And
18 we're subject to the approved permitting processes that
19 we have to secure before we drill.

20 Q. Thank you. That's all I have.

21 RE CROSS EXAMINATION

22 BY EXAMINER McMILLAN:

23 Q. One thing I'd like to see -- are these the only
24 drill islands that are approved in here?

25 A. Well, the green ones are approved. The orange

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1 ones are proposed and the red ones will be proposed.

2 Again, that is because of potash. And these have

3 been -- these locations have been -- in some -- well,

4 they've been strategically identified as a way to access

5 all of the resource from a limited area.

6 Q. Yeah, but there is an updated drill island map?

7 A. Mr. Rutley at the BLM is in charge of the

8 drilling islands, and he works in this area, the Mosaic

9 potash agreement. So we work with Mr. Rutley to gain --

10 we deal with Mr. Rutley to gain access to these drilling

11 islands. And, I mean, that's a challenge for us, but
12 we're doing it. We've got a significant investment made
13 in this asset, and it's not our intention to walk away
14 because things get difficult.

15 Q. Because I was under the impression there was a
16 drill island map floating around because I've seen an
17 example of it.

18 A. It's my understanding that the islands we
19 have -- other than the red ones here, it's my
20 understanding that Mr. Rutley at the BLM is aware of
21 these islands, the green and the orange. If it's not
22 green, they're subject to change, but we expect that the
23 orange ones will probably be found approved. Things
24 change, but that's currently where we're at.

25 Q. What's the -- what's the red?

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1 A. The red are the two islands that we intend to
2 propose for authorization to continue developing the
3 expanded unit.

4 Q. And what's the yellow?

5 A. The yellow are currently proposed but not
6 authorized.

7 Q. Okay.

8 EXAMINER BROOKS: Nothing further.

9 EXAMINER McMILLAN: Thank you very much.

10 THE WITNESS: You're welcome.

11 MS. KESSLER: I'll call my next witness.

12 EXAMINER McMILLAN: Thank you. Please
13 proceed.

14 TOM ANDERSON,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. KESSLER:

19 Q. Will you please state your name for the record
20 and tell the Examiners by whom you're employed and in
21 what capacity?

22 A. Tom Anderson, XTO Energy. I'm a geologist.

23 Q. Have you previously testified before the Oil
24 Conservation Division?

25 A. Yes, I have.

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1 Q. Were your credentials as an expert in petroleum
2 geology accepted and made a matter of record?

3 A. Yes.

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

6 A. Yes.

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

9 A. Yes.

10 MS. KESSLER: Mr. Examiners, I would tender
11 Mr. Anderson as an expert in petroleum geology.

12 MR. BRUCE: No objection.

13 EXAMINER McMILLAN: So qualified.

14 Q. (BY MS. KESSLER) Mr. Anderson, why does Bass,
15 now XTO, seek to expand the unit in the potash area to
16 the north?

17 A. We have significant interest in this area, and
18 we also saw an opportunity for widespread development in
19 this area.

20 Q. Was this area initially difficult to develop,
21 due to the potash reserves, with vertical wells?

22 A. It was virtually impossible to develop with
23 vertical wells.

24 Q. In the advent of horizontal drilling and
25 drilling islands, it's made this area viable for

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1 development?

2 A. Yes.

3 Q. Do the productive zones in the James Ranch Unit

4 extend to the northern --

5 A. We believe they do.

6 Q. Are there any producing wells in the expanded
7 area?

8 A. Not currently.

9 Q. I understand that at one point there were five
10 vertical wells dating back to 1927, but they are no
11 longer producing?

12 A. Four of them did produce and have been
13 abandoned.

14 Q. And the fifth?

15 A. The fifth was a dry hole, the 27.

16 Q. Have you been informed that all of the
17 expansion acreage is within the wildcat acreage so
18 wildcat pools?

19 A. Yes.

20 Q. And how did XTO or BOPCO -- how did the company
21 arrive at the boundary of the expanded area?

22 A. It's mostly, predominantly what we thought was
23 reachable. It does not represent the full extent of the
24 Bass acreage -- that's now XTO -- that was outside the
25 unit boundaries. It's kind of a bridge between James

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1 Ranch and Big Eddy that we think we can completely
2 develop.

3 Q. Can you please turn to Exhibit 10 and identify
4 this exhibit and tell us what it shows?

5 A. This is a type log in the James Ranch Unit,
6 Number 12, which is on Drill Island 1 and James Ranch.
7 It's immediately south of the expansion area. It shows
8 the zones that have been tagged with horizontal drilling
9 to date bridging from the lower part of the Brushy
10 Canyon all the way into what Bass calls the Wolfcamp A,
11 which is what we would call the Wolfcamp sands, X-Y
12 sands.

13 Q. In your opinion, do these zones likewise exist
14 in the proposed expansion area?

15 A. Yes.

16 Q. Do you have -- do you also have development to
17 the north of the proposed expanded area in the
18 productive zones?

19 A. We have development to the north from the
20 productive zones, from the 2nd Bone Spring Sand all the
21 way to the Brushy. The deeper intervals have yet to be
22 attacked to the north, but we have deep wells that
23 indicate -- that are prospective.

24 Q. What is Exhibit 11?

25 A. Exhibit 11 is a map showing the current

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1 development of the 2nd Bone Spring Sand interval both at
2 James Ranch and at Big Eddy to the north.

3 Q. And I see that there are four productive
4 horizontal wells in the 2nd Bone Spring Sandstone to the
5 north of the expanded area; is that correct?

6 A. That is correct.

7 Q. Do you also have a structure map of this
8 productive zone?

9 A. Yes.

10 MS. KESSLER: And if I can just stay on
11 Exhibit 11, Mr. Examiners, I'd like to make a note that
12 in Section 34, this map also reflects that the southeast
13 quarter of Section 34 is not included, but that is
14 incorrect. It is included with the expanded area.

15 Q. (BY MS. KESSLER) So with that, if you could
16 turn to Exhibit 12, please, Mr. Anderson, and identify
17 this exhibit.

18 A. It's a structure map on the top of the 2nd Bone
19 Spring Sandstone. It's basically showing a monoclinal
20 dip to the southeast. There is a cross section
21 identified A to A prime, and we can look at it in the
22 next exhibit.

23 Q. Have you identified any structural impediments
24 to developing this acreage with horizontal wells in the
25 expanded area?

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1 A. No.

2 Q. And you mentioned the next exhibit will reflect
3 the A to A prime line. Why were these four wells
4 selected for the cross section?

5 A. Basically, these are the best wells available
6 to illustrate the potential of the expansion area.
7 Essentially, there is no deep penetration in the central
8 part of the expansion area that we could go to.

9 Q. Exhibit 13 is your cross section for the 2nd
10 Bone Spring; is that correct?

11 A. That is correct.

12 Q. Can you please walk us through this exhibit?

13 A. There is an overlying -- this is the 2nd Bone
14 Spring Sandstone interval. It's actually quite thick,
15 generally over 400 feet gross thickness. There is a
16 type carbonate at the top we call the 1st Bone Spring
17 Carbonate on this section. In the 2nd Bone Spring Sand,
18 there is a thick zone to a sandstone overlaying the blue
19 interval. That barely shows up. In theory, it's a

20 tight carbonate that separates it from the underlying B
21 sandstone and then another tight carbonate below.

22 Q. Does this signature show us that there is good
23 continuity of 2nd Bone Spring Sandstone across the
24 expansion area?

25 A. Yes. Predominantly the depositional trends are

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1 north to south through here, and we're in the heart
2 depositional thick that extends from Big Eddy down into
3 James Ranch. The expansion is right in the middle.

4 Q. Is the 2nd Bone Spring Sandstone the target for
5 the initial obligation wells?

6 A. Yes, it is.

7 Q. All four of them?

8 A. Yes.

9 Q. As currently planned?

10 A. As currently planned.

11 Q. Let's talk -- go ahead.

12 A. We also would like to begin, as soon as
13 possible, to drill a deep well pilot hole or water
14 disposal well just so we can understand how deep the
15 potential pays go in that interval -- in that area. And
16 I don't think -- well, I won't presume. But if
17 someone -- if a deeper interval shows to be more

18 prospective -- potentially more prospective than the 2nd
19 Bone Spring Sand -- we feel perfectly comfortable that
20 that is a viable objective, but if something deeper
21 shows up that looks attractive, we will try to take it
22 deeper.

23 Q. Let's turn now to the Delaware interval. Is
24 Exhibit 14 a structure map of the Lower Brushy?

25 A. Yes. And essentially it's showing a monoclinal

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1 dip to the east-southeast, similar to the underlying
2 Bone Spring.

3 Q. Okay. Again, no structural impediments to
4 drilling horizontal wells in the expansion area?

5 A. No.

6 Q. And you have marked B to B prime on this
7 exhibit. Does that correspond to Exhibit 15, which is
8 the loose exhibit I've included?

9 A. Yes, it does.

10 Q. Why were those four wells selected?

11 A. To best illustrate the potential of the Brushy
12 Canyon in the expansion area.

13 Q. Can you turn to Exhibit 15 and walk us through
14 this exhibit, please?

15 A. Yeah. Predominantly, there are three sands
16 that the horizontal wells have been drilled in in this
17 area. The Lower U, the W and the Y sands. In the lower
18 part of the Brushy Canyon, all the zones show excellent
19 continuity and are widespread.

20 Q. Across the proposed expansion area?

21 A. Across the -- across the southern part of the
22 Delaware Basin.

23 Q. Based on your analysis, are there any faults or
24 pinchouts or geologic hazards that will prevent the
25 additional acreage from being efficiently developed

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1 under the unit plan --

2 A. No.

3 Q. -- under a unit plan?

4 A. No.

5 Q. And in your opinion, is it reasonable to
6 include the expanded area as part of the unit
7 development operations that are currently taking place
8 within the James Ranch Unit?

9 A. Yes.

10 Q. In your opinion, will approval of this
11 application be in the best interest of conservation, for
12 the prevention of waste and the protection of

13 correlative rights?

14 A. Yes.

15 Q. Were Exhibits 10 through 15 prepared for this
16 hearing and reviewed by you?

17 A. Yes.

18 MS. KESSLER: Mr. Examiners, I would move
19 admission of Exhibits 10 through 15.

20 MR. BRUCE: No objection.

21 EXAMINER McMILLAN: Exhibits 10 through 15
22 may now be accepted as part of the record.

23 (XTO Energy, Inc. Exhibit Numbers 10
24 through 15 are offered and admitted into
25 evidence.)

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1 CROSS-EXAMINATION

2 BY MR. BRUCE:

3 Q. Mr. Anderson, one question: On the four
4 initial obligation wells, are the locations of those
5 wells yet specified?

6 A. We -- we -- we have identified them, yes. Our
7 biggest issue is actually going to get APDs submitted on
8 a timely basis. Where we have specified them -- or
9 where we are seeking them is to show as best we can how

10 much of the unit -- the expansion area we can cover.

11 Q. If you don't know the answer, that's okay, but
12 they proposed coming out of an approved or nominated
13 drilling island?

14 A. Yes. They're approved or nominated, not the
15 proposed.

16 Q. Not the proposed. Okay.

17 A. And we recognize -- well, we recognize the way
18 the mining is in here and the total area. Some of the
19 development of the expansion area is going to have to
20 come from Big Eddy, and we are going to have -- we're
21 going to have to come from outside the expansion area to
22 the west into the expansion area.

23 Q. And that's shown on Mr. Hilger's Exhibit 7; is
24 it not?

25 A. It is.

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1 Q. Offhand, why wasn't any of XT0's acreage to the
2 west included in the proposed expansion?

3 A. XT0's other acreage to the west, that's the
4 boundary of the Big Eddy Unit. The expansion area abuts
5 up to the Big Eddy Unit.

6 Q. Okay. Thank you.

7 You said you had the four obligation wells

8 at the same time. Do you intend to drill that deep
9 pilot hole?

10 A. Yes.

11 Q. And based on those wells, will you then decide
12 whether to stay in the 2nd Bone Spring or move into the
13 Delaware or the Wolfcamp?

14 A. We're unlikely to move up to the Delaware, but
15 yes, we would decide if it's prudent to move deeper.
16 Yeah.

17 Q. Thank you.

18 CROSS-EXAMINATION

19 BY EXAMINER McMILLAN:

20 Q. Okay. What is -- what is the drilling
21 schedule? When do you -- when do you plan to spud the
22 first well?

23 A. As soon as we get APDs back.

24 Q. Well --

25 A. I mean, our biggest problem is receiving back

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1 APDs. We will submit four APDs within two months of the
2 expansion approval, if gained, and we will spud the
3 first well within six months of the returned approved
4 APD.

5 Q. So you will submit four APDs after approval?

6 A. Yes.

7 Q. Okay. Sorry. I'm trying to write notes. And
8 then what was your next statement? I apologize.

9 A. Well, we only have two months to get those four
10 APDs submitted, after the expansion is approved, to file
11 for the permits.

12 Q. And then it has to be filed almost
13 instantaneously?

14 A. Yeah. We're setting up now to be able to do
15 that. And then once the APDs are approved, we have six
16 months to commence drilling on the first obligation
17 well. And in order -- well, in order to mobilize a rig
18 in here -- when we get a rig in here, we're not going to
19 stop until we're out of permits.

20 Q. So you're saying you'll have continuous
21 development once you start?

22 A. Yes. That's our plan.

23 Q. And then your initial well, what, you're going
24 to test -- you're going to drill through the Bone Spring
25 and then -- is that the plan -- or to the Wolfcamp. I'm

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1 sorry.

2 A. We actually -- it would likely go to the

3 Strawn, the pilot hole at least.

4 Q. Oh, okay.

5 A. We're not -- even the Penn shales are
6 occasionally working in this area, so that's something
7 we need to evaluate.

8 Q. Okay. By the way, this isn't related to the
9 Purple Sage, is it?

10 MS. KESSLER: No, Mr. Examiner. This is
11 all wildcat acreage.

12 EXAMINER McMILLAN: Do you have any
13 questions?

14 EXAMINER BROOKS: No questions.

15 EXAMINER McMILLAN: Oh, okay. That's fine.

16 MS. KESSLER: May I make one clarification,
17 Mr. Examiner?

18 EXAMINER McMILLAN: Yeah.

19 REDIRECT EXAMINATION

20 BY MS. KESSLER:

21 Q. Mr. Anderson, I believe you said one of the
22 biggest impediments is submission of APDs. Did you mean
23 to say approval of APDs is one of the biggest issues
24 right now?

25 A. Yeah. It's the timing of the approvals.

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1 Q. Thank you.

2 A. We have some issues getting them in as well,
3 but that's our problem.

4 Q. Okay.

5 EXAMINER McMILLAN: You did a nice job.

6 Are there any unlocatable interests?

7 MR. HILGER: We did a recent check of the
8 public records, and we found that we had addresses for
9 all. We had a couple that came back undeliverable.

10 EXAMINER McMILLAN: Okay. So there are
11 unlocatable parties?

12 MR. HILGER: Yes.

13 EXAMINER McMILLAN: All right.

14 EXAMINER BROOKS: Have they been served by
15 publication?

16 MS. KESSLER: They have, Mr. Examiner.

17 EXAMINER BROOKS: Okay.

18 EXAMINER McMILLAN: Thanks.

19 MS. KESSLER: I would ask this case be
20 taken under advisement.

21 MR. BRUCE: And I would just like to make a
22 brief statement --

23 EXAMINER McMILLAN: Go ahead.

24 MR. BRUCE: -- about MRC's position.

25 As Mr. Hilger said, I think both

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1 companies -- both entities will keep negotiating about
2 an acreage trade so that MRC could go away. It does not
3 want its acreage in the unit. It owns most of two
4 sections of land, MRC does, and, of course, its
5 operating arm, Matador Production Company, prefers to
6 operate their own acreage. And if it's considered
7 within the unit, even if MRC does not ratify the unit,
8 basically operational preference will be given to XTO,
9 and that's one reason that MRC would prefer its acreage
10 eliminated from the expansion area. And, of course, you
11 know, the reason I raised the unit operating agreement,
12 MRC would much rather be operating under a modern form
13 operating agreement on its acreage.

14 And for those reasons, it does ask that its
15 acreage be eliminated from the expansion area. If they
16 come to terms later, it would be easy enough for XTO to
17 add these couple of sections of land to the unit. And
18 that's MRC's position.

19 MS. KESSLER: If I may respond?

20 EXAMINER McMILLAN: Please proceed.

21 MS. KESSLER: Mr. Examiner, XTO's position

22 is, again, that this is a voluntary unit. To the extent
23 MRC's acreage is within the unit area, they are entitled
24 to develop as they see fit. It's their own lease, and
25 any sort of agreement on their behalf would not commit

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1 their acreage.

2 With respect to the modern form agreement,
3 XTO's bound by this unit agreement as a contract. It's
4 not something that can be simply amended with updated
5 provisions at this point.

6 So XTO would just ask this application be
7 taken under advisement and that the unit outline remain
8 as is, understanding that if it's contracted, then any
9 further expansion would have to go through another
10 approval process at BLM, the State providing preliminary
11 approval, another hearing and final approval with both
12 of those agencies.

13 EXAMINER McMILLAN: Okay. Okay. Then Case
14 Number 15844 shall be taken under advisement.

15 MS. KESSLER: Thank you.

16 EXAMINER McMILLAN: Thanks.

17 (Case Number 15844 concludes, 12:00 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

21

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
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