

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 LLANO ENERGY, LLC CASE NO. 16079
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT, COMPULSORY POOLING,
AND AN UNORTHODOX WELL LOCATION,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 3, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
SCOTT DAWSON, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, Scott Dawson, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, May 3,
2018, 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.

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

1 APPEARANCES

2 FOR APPLICANT LLANO ENERGY, LLC:

3 GARY W. LARSON, ESQ.
 4 HINKLE SHANOR, LLP
 218 Montezuma Avenue
 Santa Fe, New Mexico 87501
 5 (505) 982-4554
 glarson@hinklelawfirm.com
 6

7

8 INDEX

9 PAGE

10 Case Number 16079 Called 3

11 Llano Energy, LLC's Case-in-Chief:

12 Witnesses:

13 Gary Bond:

14 Direct Examination by Mr. Larson 3

Cross-Examination by Examiner McMillan 13

15 Cross-Examination by Examiner Dawson 15

Recross Examination by Examiner McMillan 17

16 Cross-Examination by Examiner Brooks 18

17 John C. Maxey:

18 Direct Examination by Mr. Larson 22

Cross-Examination by Examiner McMillan 27

19 Cross-Examination by Examiner Dawson 29

20

Proceedings Conclude 31

21

Certificate of Court Reporter 32

22

EXHIBITS OFFERED AND ADMITTED

23

Llano Energy, LLC Exhibit Numbers 1 through 7 13

24

Llano Energy, LLC Exhibit Number 8 27

25

1 (8:29 a.m.)

2 EXAMINER McMILLAN: The first case I'd like
3 to call is application of Llano Energy, LLC for a
4 nonstandard oil spacing and proration unit, compulsory
5 pooling, and unorthodox well location, Lea County, New
6 Mexico.

7 Call for appearances.

8 MR. LARSON: Good morning. Gary Larson,
9 with Hinkle Shanor, for the Applicant, Llano Energy,
10 LLC. I have two witnesses.

11 EXAMINER McMILLAN: Any other appearances?
12 If the witnesses would please stand up and
13 be sworn in at this time.

14 (Mr. Bond and Mr. Maxey sworn.)

15 MR. LARSON: May I proceed, Mr. Examiner?

16 EXAMINER McMILLAN: Yes.

17 GARY BOND,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. LARSON:

22 Q. Good morning, Mr. Bond.

23 A. Good morning.

24 Q. Would you state your full name for the record?

25 A. Gary Bond, B-O-N-D.

1 Q. And where do you reside?

2 A. I reside in the Stillwater, Oklahoma.

3 Q. And by whom are you employed and in what
4 capacity?

5 A. I am vice president and land manager for
6 Special Energy Corporation.

7 Q. And what entity is Llano Energy requesting be
8 designated as the operator of the proposed project area
9 of Sarah #1H well?

10 A. Special Energy and Llano Energy are affiliated
11 companies. Llano Energy is the entity that holds record
12 title. Special Energy is the licensed operator for the
13 state of New Mexico and contract operator for Llano
14 Energy.

15 Q. So Special Energy develops and drills the wells
16 for Llano's interest?

17 A. That is correct.

18 Q. And Llano's asking the Division to designate
19 Special Energy as the operator of the project area in
20 the well?

21 A. Yes, sir.

22 Q. And do your responsibilities as vice president
23 of land for Special Energy include southeast New Mexico?

24 A. Yes, sir.

25 Q. And are you familiar with the land matters that

1 **pertain to Llano's application?**

2 A. Yes, sir, I am.

3 **Q. Have you previously testified at a Division**
4 **hearing?**

5 A. I have.

6 **Q. And at those hearings, were your credentials**
7 **accepted as an expert in petroleum land matters?**

8 A. Yes, sir, they were.

9 MR. LARSON: Mr. Examiner, I tender
10 Mr. Bond as an expert in petroleum land matters.

11 EXAMINER McMILLAN: So qualified.

12 **Q. (BY MR. LARSON) Would you identify the document**
13 **marked as Exhibit 1?**

14 A. This is Form C-102, as submitted by Special
15 Energy Corporation, for the drilling of the Sarah 1H
16 well.

17 **Q. And is Exhibit 1 a true and correct copy of the**
18 **C-102 for the Sarah 1H?**

19 A. Yes, sir, it is.

20 **Q. And is all the acreage in the proposed project**
21 **area fee?**

22 A. Yes, it is.

23 **Q. And what formation is Llano seeking to pool?**

24 A. San Andres.

25 **Q. Are there any depth exceptions in the San**

1 **Andres?**

2 A. No, sir. There are not.

3 **Q. And are the first and last take points as**
4 **indicated on the C-102 unorthodox?**

5 A. Yes. They are unorthodox.

6 **Q. So in addition to requesting approval of the**
7 **320-acre project area, Llano is also seeking approval of**
8 **an unorthodox well location?**

9 A. Yes, they are.

10 **Q. And will Mr. Maxey address the reasons why**
11 **Llano is requesting an unorthodox location?**

12 A. Yes, sir.

13 **Q. Does Llano hold a working interest in each**
14 **40-acre unit within the proposed project area?**

15 A. Yes, they do.

16 **Q. And what percentage of the acreage within the**
17 **entire project area does Llano hold?**

18 A. Approximately 97 percent.

19 **Q. Would you next identify the document marked as**
20 **Exhibit 2?**

21 EXAMINER McMILLAN: Slow down a little bit.

22 MR. LARSON: I'm sorry?

23 EXAMINER McMILLAN: Slow down a little bit.

24 MR. LARSON: Sure. Do you want me to
25 repeat the question?

1 EXAMINER McMILLAN: No. Go on.

2 Q. (BY MR. LARSON) You can go ahead and answer.

3 A. Exhibit 2 is a structure map prepared by
4 Special Energy's geological department, the exploration
5 manager and vice president. I prepared a structure map.
6 Superimposed on it is the east half of 29 with some --
7 besides the geological stuff, there are some various
8 land indicators that match the C-102.

9 Q. And I'm directing your attention to the exhibit
10 to address the offset acreage that is impacted --
11 potentially impacted by the unorthodox well location.
12 What is the nature of the interest in the south half of
13 the southeast of Section 20?

14 A. Llano Energy holds 100 percent of the working
15 interest -- leasehold working interest in the south half
16 of the southeast of Section 20.

17 Q. And what is the nature of Llano's interest in
18 the north half of the northeast of Section 32?

19 A. Llano Energy owns slightly less than 50 percent
20 of the leasehold in there.

21 EXAMINER McMILLAN: You mean Section 29,
22 right?

23 MR. LARSON: No. I'm talking about the
24 offset.

25 EXAMINER McMILLAN: Oh, okay.

1 THE WITNESS: North half of 32, a little
2 less than 50 percent of the leasehold.

3 **Q. (BY MR. LARSON) Would you next identify the**
4 **document marked as Exhibit 3?**

5 A. Exhibit 3 is a copy of the well-proposal
6 letters sent out to the parties that have not made
7 oil-and-gas leasing or other arrangements with Llano
8 Energy or Special Energy.

9 **Q. Does this also include the returned green cards**
10 **for those --**

11 A. Yes, sir, it does.

12 **Q. And were the well-proposal letters sent out**
13 **under your direction and supervision?**

14 A. Yes, they were.

15 **Q. And prior to sending the well-proposal letters**
16 **to the uncommitted interests, had Llano communicated**
17 **with any of those interests about joining the Sarah #1H**
18 **well?**

19 A. We had contacted them often and frequently
20 trying to finalize the balance of uncommitted interests
21 in the project area.

22 **Q. And are there any uncommitted interests that**
23 **you were unable to find good addresses for?**

24 A. There were a couple, but that was taken care of
25 by notice, I believe.

1 **Q. And what efforts did Llano undertake to locate**
2 **those entities?**

3 A. Besides using the records from the county
4 courthouse, in talking to other relatives, other owners,
5 we used a series of subscription programs, Internet
6 search programs. The leasing process leads us to a lot
7 of some of these people we can't find.

8 **Q. And after the well-proposal letters were sent,**
9 **did Llano have any further communication with any of the**
10 **uncommitted interests?**

11 A. We have all but one of the uncommitted owners
12 under lease since these proposal letters were sent. The
13 ones -- a little less than seven net acres that we
14 cannot make a deal with. We cannot find her. Her
15 relatives have even informed us they haven't heard from
16 her in the last 40 years.

17 **Q. Would you next identify the document marked as**
18 **Exhibit 4?**

19 A. That is a copy of the letter sent to those
20 inside the unorthodox project area, size of 320-acre
21 area.

22 **Q. And does Exhibit 4 include a true and correct**
23 **copy of one of the hearing notice letters sent to one of**
24 **the uncommitted interest owners?**

25 A. Yes, sir, it does.

1 **Q. And were the hearing notice letters sent to all**
2 **of the interests identified in the list in Exhibit 2?**

3 A. Yes, they were.

4 **Q. And were hearing notice letters sent to any**
5 **additional parties?**

6 A. The offset ownership.

7 **Q. And any royalty interests within the project**
8 **area?**

9 A. Oh, excuse me. Yes. We have some
10 nonparticipating royalty interest owners that, as a
11 conservative approach, we decided to notice them to take
12 a conservative-notice approach, make sure everybody was
13 noticed of the unorthodox size. The nonparticipating
14 royalty owners are all subject to an existing
15 oil-and-gas lease with Llano Energy, but some states
16 question the NPRI with the pooling process.

17 **Q. Would it be fair to say you took a conservative**
18 **approach and --**

19 A. Maybe a little ultraconservative, but yes, a
20 conservative approach.

21 **Q. Would you identify the document marked as**
22 **Exhibit 5?**

23 A. Exhibit 5 is the notice letter to the
24 offsetting 40-acre ownership around that 320 acres.

25 **Q. Does Exhibit 5 also include a listing of the**

1 offset operators and the returned green cards?

2 A. Yes, sir.

3 Q. And does the list in Exhibit 5 include all the
4 offset interests in the north half-northeast of Section
5 20 that are potentially impacted by the unorthodox well
6 location?

7 A. South half-southeast, yes, sir, of Section 20.

8 Q. Yes. My mistake.

9 Did Llano have good addresses for all of
10 the offset interests?

11 A. No, sir.

12 Q. In your opinion, did Llano make a good-faith
13 effort to obtain good addresses for all the offsets?

14 A. Yes, sir. We made a good effort.

15 Q. Did Llano also publish notice of today's
16 hearing?

17 A. Yes, they did.

18 Q. And did that publication notice individually
19 identify each of the individuals and entities listed in
20 Exhibit Number 3 and 5?

21 A. Yes, sir.

22 Q. And when was the notice published in the "Hobbs
23 Sun-News"?

24 A. It began publication on April 18th.

25 Q. Would you identify the document marked as

1 **Exhibit 6?**

2 A. Exhibit 6 is a copy of the Affidavit of
3 Publication for this hearing.

4 **Q. And is it a true and correct copy of that**
5 **affidavit?**

6 A. Yes, sir, it is.

7 **Q. And what is the document marked as Exhibit 7?**

8 A. Exhibit 7 is a copy of the Authority for
9 Expenditure that was included in the drilling and the
10 well-proposal letters.

11 **Q. And what is the total estimated well costs?**

12 A. \$3,494,819.78.

13 **Q. And is that estimated cost similar to well**
14 **costs for other San Andres horizontal wells drilled and**
15 **operated by Special Energy?**

16 A. Yes, sir.

17 **Q. Did you have a recommendation for the amounts**
18 **Llano should be paid for supervision and administrative**
19 **expenses?**

20 A. Operator's administrative overhead, we would
21 recommend \$750 a month, and for the drilling and
22 completion process, 7,500 a month.

23 **Q. And are those amounts consistent with and**
24 **similar to those charged for other Special Energy San**
25 **Andres wells?**

1 A. Yes, sir, they are.

2 Q. Do you also recommend that the rates for
3 supervision and administrative expenses be adjusted
4 periodically pursuant to the COPAS accounting procedure?

5 A. Yes. Yes, sir, I do.

6 Q. And is Llano also requesting a 200 percent
7 charge for the risk of drilling and completing the Sarah
8 #1H?

9 A. Yes, sir, we are.

10 Q. In your opinion, will the granting of Llano's
11 application avoid the drilling of unnecessary wells,
12 protect correlative rights and serve the interest of
13 conservation and prevention of waste?

14 A. Yes, sir.

15 MR. LARSON: Mr. Examiner, I move the
16 admission of Exhibits 1 through 7.

17 EXAMINER McMILLAN: Exhibits 1 through 7
18 may now be accepted as part of the record.

19 (Llano Energy, LLC Exhibit Numbers 1
20 through 7 are offered and admitted into
21 evidence.)

22 MR. LARSON: Pass the witness.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. You're the exploration manager, right?

1 A. I'm the land manager.

2 Q. What are your development plans in here? Are
3 you going to develop the east half of the east half of
4 29 and the west half of the east half?

5 A. I'm going to defer part of that answer to our
6 petroleum engineering witness, but as an overall
7 overview, we have 15,000 acres under lease here, and
8 we're working on a proof of concept. We've drilled two
9 wells in here already. We have two more. This will be
10 the fourth one. There are plans on the books for infill
11 drills inside this 320.

12 Q. The next issue is you're going to supplement
13 the record. For your geologic presentation, the only
14 way the OCD will accept it is with a signed affidavit
15 from the geologist stating that this is his work,
16 because you're not a geologist.

17 A. Right.

18 Q. That's the only way we'll accept it. Does that
19 make sense?

20 MR. LARSON: I will supplement the record
21 with that.

22 EXAMINER McMILLAN: Okay.

23 Q. (BY EXAMINER McMILLAN) For clarification, Llano
24 has an interest in all of the spacing units, right?

25 A. Yes, sir.

1 Q. For clarity, there were unlocatable interests,
2 right?

3 A. The only party we do not have leased, we can't
4 find them.

5 Q. That's fine.

6 And the pool is the -- how did you
7 determine the pool?

8 A. Called Paul Kautz. He assigned it a pool code.

9 Q. Okay. That's fine, because I didn't see it in
10 your application. And since you're on record saying
11 Paul Kautz approved it, then that's fine.

12 So your penetration point's 100 from the
13 south, 1,300 from the east? Your final penetration
14 point, which is your terminus, is 100 from the north,
15 1,300 from the east?

16 A. Yes, sir.

17 Q. Okay. Okay. Okay.

18 EXAMINER McMILLAN: Do you have any
19 questions?

20 EXAMINER DAWSON: Yeah. I have a couple of
21 questions.

22 CROSS-EXAMINATION

23 BY EXAMINER DAWSON:

24 Q. You talked about the one interest owner that
25 you could not contact. You referred to her as "her."

1 **Who is that person? Do you know?**

2 A. I do not know. I do not do that part of it,
3 but I do have some notes that may tell me.

4 **Q. Okay.**

5 A. I have a crew that works for us, does all the
6 work for me.

7 **Q. Okay.**

8 A. She is a known heir to the -- the record
9 titleholder is the deceased, in the estate of. She was
10 a known heir to the rest of the relatives that were
11 found. I did not do the actual contact, but it was done
12 under my direction.

13 **Q. Okay. Mr. Larson said that the costs -- the**
14 **drilling and completion costs, they're consistent with**
15 **other wells, and you said they were with your wells that**
16 **you've drilled before?**

17 A. We drilled the offset in Section 20. Yes, sir.

18 **Q. Are they consistent with other wells that other**
19 **operators have drilled in that area, or do you know of**
20 **any other operators who have drilled in that area?**

21 A. They are consistent depending on the
22 stimulation treatment, but that's the big wild card in
23 there. But yes, they are consistent. We have
24 researched before we drilled our first one.

25 **Q. Okay.**

1 A. And we built our original first two well AFEs
2 off of those other operators that were willing to share
3 with us, and then after we drilled the two wells, this
4 Sarah AFE for this application is based on our
5 historical costs for the two wells we've already
6 drilled, plus what we know for the area.

7 **Q. Okay. Thank you very much. That's all the**
8 **questions I have.**

9 **RECROSS EXAMINATION**

10 BY EXAMINER McMILLAN:

11 **Q. So my question is: You're pooling your royalty**
12 **owners. Did they not have a pooling clause in their**
13 **lease?**

14 A. They -- we're pooling the nonparticipating
15 royalty owners. Okay? The executive rights part of
16 that equation, the executory party of the royalty,
17 signed an oil-and-gas lease with a pooling provision.
18 I'm not pooling them. I'm pooling the nonparticipating
19 royalty owners because in some states, there is a
20 question as to whether or not some of those
21 nonparticipating royalty owners are subject to that
22 pooling clause. But to finish my statement, we're in
23 the process of having all those nonparticipating royalty
24 owners ratify that lease anyway.

25 **Q. But they're subject to a voluntary agreement?**

1 A. I agree with you.

2 **Q. Okay. All right. Doesn't make any sense to**
3 **me.**

4 EXAMINER McMILLAN: Make sense to you?

5 EXAMINER BROOKS: Yes.

6 EXAMINER McMILLAN: Okay. Well, then
7 that's fine.

8 (Laughter.)

9 EXAMINER BROOKS: Sometimes it helps to be
10 a lawyer. Sometimes it doesn't.

11 (Laughter.)

12 EXAMINER McMILLAN: Do you have any
13 questions, David?

14 EXAMINER BROOKS: Yes.

15 CROSS-EXAMINATION

16 BY EXAMINER BROOKS:

17 **Q. You said in some states there is some doubt**
18 **about it. Is there not a doubt about it in New Mexico**
19 **about nonparticipating royalties?**

20 A. We think that New Mexico is pretty clear about
21 it. But like I said earlier, we're just taking an
22 ultraconservative approach. We think that --

23 **Q. Okay. Well -- go ahead.**

24 A. From my nonlegal position, we think New Mexico
25 supports the fact that the nonparticipating royalty

1 owners automatically step into the shoes of the pooling
2 clause of the executory party on the lease.

3 Q. Now, is this a nonparticipating royalty that
4 arose subject to the lease, or is it a nonparticipating
5 royalty that -- very often nonparticipating royalties
6 are separated from the mineral estate before the lease.

7 A. Correct. That was the case. They were
8 separated before the lease.

9 Q. That's the way I generally think of them as
10 being. And then subsequent to the nonparticipating
11 royalty being carved out, the person who owns the
12 residuary mineral interest then leases the tract.

13 Okay. I think --

14 A. That's the way we proceeded. And as a
15 precaution, we're asking that the nonparticipating
16 royalty owners also ratify the lease that was executed
17 on their behalf.

18 Q. Okay. I would be interested in knowing what
19 authority you rely on for New Mexico's position on that.
20 It appears you covered it either way. But I don't think
21 I've read a New Mexico case that I consider decisive on
22 that.

23 EXAMINER BROOKS: Are you familiar with the
24 authority, Mr. Larson?

25 MR. LARSON: I am not.

1 EXAMINER BROOKS: Well, perhaps you can
2 find out from some of your clients or attorneys what
3 that is, because I am aware -- I think I'm aware of a
4 case in Texas, although I don't remember the name of it,
5 but I don't know of one in New Mexico, and I haven't
6 read all the cases in New Mexico.

7 Q. (BY EXAMINER BROOKS) Okay. But it doesn't
8 affect this case because you're covered here.

9 Now, it looks like a lot of the people you
10 notified are the estate of somebody, and I can
11 understand that --

12 A. Yes, sir.

13 Q. -- because, I take it, you have a lot of
14 deceased people in this title.

15 A. We notified the estate, the record title
16 owners, but we continued to lease the known heirs, and
17 in a couple of cases, maybe questionable heirs.

18 Q. Yup. But did you notify each deceased -- did
19 you notify the estate, therefore impliedly the unknown
20 heirs of each of the --

21 A. Yes, sir. That was -- by naming the record
22 title -- estate of the record title --

23 Q. Right.

24 A. -- we were trying to notice the known and
25 unknown heirs.

1 Q. Right. And I think that makes sense.

2 Just to correct the record, I believe
3 Mr. Larson asked you if you noticed everyone listed on
4 Exhibit 2, and, of course, Exhibit 2 is a structure map.
5 What you're talking about, I take it, is pages 1 through
6 3 of the -- no. It's only 1 and 2. I thought there
7 were three pages. Pages 1 and 2 of the attachment to
8 Exhibit 3, is that where you have a list of people
9 notified?

10 A. Yes, sir. The people notified were pages 2 --
11 there is a list on page 2 of Exhibit 3.

12 Q. Okay. Thank you.

13 MR. LARSON: Appreciate you pointing that
14 go out, Mr. Brooks. That's the list of the uncommitted
15 interests we sent well-proposal letters to.

16 EXAMINER BROOKS: Well, I'm sure we've all
17 prepared these things, and Exhibit 2 is usually the
18 ownership list, but sometimes -- sometimes it's a little
19 different.

20 MR. LARSON: You're absolutely right. I
21 moved the structure map up to 2 so he could testify
22 about the offset acreage.

23 EXAMINER BROOKS: Yes. I've done things
24 like that, too.

25 Go ahead.

1 MR. LARSON: I have nothing further for
2 this witness.

3 EXAMINER McMILLAN: Thank you very much.

4 THE WITNESS: Thank you.

5 JOHN C. MAXEY,
6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. LARSON:

10 Q. Good morning, Mr. Maxey.

11 A. Good morning.

12 Q. Would you state your full name for the record?

13 A. John Maxey.

14 Q. And where do you reside?

15 A. Roswell, New Mexico.

16 Q. And what is the nature of your business?

17 A. I'm a consulting petroleum engineer.

18 Q. And what is the name of your company?

19 A. Maxey Engineering.

20 Q. And have you been retained by Llano to evaluate
21 the Sarah 1H well and provide expert testimony regarding
22 the well in Llano's application?

23 A. Yes, I have.

24 Q. And are you familiar with the engineering and
25 geological aspects of the application?

1 A. Yes, I am.

2 Q. Have you previously testified at a Division
3 hearing?

4 A. Yes, I have.

5 Q. And in each hearing, were you qualified as an
6 expert in petroleum engineering?

7 A. Yes.

8 MR. LARSON: Mr. Examiner, I tender
9 Mr. Maxey as an expert petroleum engineer.

10 EXAMINER McMILLAN: So qualified.

11 Q. (BY MR. LARSON) I'll direct your attention to
12 Exhibit 1, which is the C-102. Where would the Sarah 1H
13 well be located within the east half of Section 29?

14 A. Very near the centerline of the east half of
15 Section 29.

16 Q. And do you believe that locating the well near
17 the centerline is an efficient and economical way to
18 develop the San Andres on this acreage?

19 A. Yes.

20 Q. And have you consulted with Llano's geologist
21 about the target interval?

22 A. Yes, I have.

23 Q. And did you have an opportunity to discuss
24 whether there were any geological impediments in the --

25 A. Yes. There are no impediments within the San

1 Andres target interval.

2 **Q. And would you direct your attention to Exhibit**
3 **2 and explain to the Examiner what this document is**
4 **intended to depict?**

5 A. Exhibit 2 was a structure map on the San Andres
6 that was prepared by the geologist of Special Energy. I
7 collaborated with him. This map is not on the top of
8 the San Andres specifically. It's on the top of the
9 porosity that is the target interval for the horizontal
10 well. It depicts the project area, the east half of 29.
11 It illustrates the first and last take points. It also
12 illustrates a type curve in the southwest-southwest of
13 28 to illustrate the target interval.

14 **Q. And are there any Special Energy San Andres**
15 **wells in the vicinity of the proposed area of the #1H?**

16 A. Yes. They drilled and completed the Decker #1
17 in the west half-west half of 20, a north-south one-mile
18 lateral with 330 setbacks.

19 **Q. Has the Decker 1H well been economic?**

20 A. Yes.

21 **Q. Would you identify the final exhibit, which is**
22 **marked as Number 8?**

23 A. Number 8 is the type log I refer to, the
24 Trinity #1 in the southwest-southwest of 28. It
25 illustrates the top of the San Andres to -- on this

1 particular log, its measured depth 45, 45. And the
2 target interval is 150 foot for its interval, located
3 approximately 5,192 on this log. The arrow depicts the
4 San Andres target.

5 Q. And did you prepare Exhibit 8?

6 A. Yes.

7 Q. And in your opinion, will the Sarah 1H well
8 affect, develop and drain portions of the lands in each
9 and every one of the quarter-quarter sections included
10 within the proposed project area?

11 A. Yes.

12 Q. And in your opinion, are all the
13 quarter-quarter sections expected to be more or less
14 equally productive?

15 A. Yes.

16 Q. Directing your attention back to Exhibit 2 --
17 I'm sorry -- back to Exhibit 1, the C-102, what are the
18 locations of the first and last take points for the
19 Sarah 1H well?

20 A. The last take point or the terminus -- at the
21 terminus point, the last take point is 100 feet from the
22 north line of the section, Section 29, and 1,300 feet
23 from the east line. The take point at the heel is 100
24 foot from the south line of 29, 1,300 feet from the east
25 line.

1 **Q. And why is Llano proposing an unorthodox well**
2 **location for the Sarah 1H?**

3 A. As pointed out in the Decker #1, they drilled
4 the Decker #1 on the standard 330-foot setbacks. And
5 just in average terms, in this particular play, you're
6 looking at stage spacing of 60 to 120 feet. When you
7 come up against the lease line, if you happen to have a
8 bigger project -- or excuse me -- development area, as
9 Special Energy, Llano does, you leave -- at those two
10 end points, you leave 660 feet that's -- under the
11 standard setbacks, you leave 660 feet that's
12 unstimulated. So that's quite a disparity between that
13 and the spacing on the stages. So the plan here is to
14 develop, from north to south, 100-foot setbacks and
15 develop with an additional two stages in each one-mile
16 lateral at this time.

17 **Q. In your opinion, will the proposed unorthodox**
18 **location serve the interests of improving well**
19 **performance and maximizing recovery and reserves?**

20 A. Yes, it will.

21 **Q. And in your opinion, will the granting of**
22 **Llano's application avoid the drilling of unnecessary**
23 **wells, protect correlative rights and serve the**
24 **interests of conservation and the prevention of waste?**

25 A. Yes.

1 MR. LARSON: Mr. Examiner, I move the
2 admission of Exhibit Number 8.

3 EXAMINER McMILLAN: Exhibit 8 may now be
4 accepted as part of the record.

5 (Llano Energy, LLC Exhibit Number 8 is
6 offered and admitted into evidence.)

7 MR. LARSON: And I will pass the witness.

8 CROSS-EXAMINATION

9 BY EXAMINER McMILLAN:

10 Q. Okay. Tell me the development plans of the
11 east half of Section 29.

12 A. Okay. The development plans longer term are
13 three wells per half section. Okay? Part of the --
14 part of the plan and as this play is evolved, all of the
15 operators are learning. This is a depressurization type
16 play, and part of the plan here is you can -- is to
17 develop your 320 project area, start the pressure
18 depletion process with the center well, and then come in
19 at a future date and drill your two offsets.

20 Q. But aren't you losing -- if you wait, aren't
21 losing your reservoir pressure?

22 A. That's what you want to lose, because oil does
23 not become mobile in this play until you start to
24 depressurize the play.

25 Q. Oh, okay.

1 A. Okay?

2 So you're going to produce -- in the Decker
3 #1, the first month was 100 percent water. And what you
4 see is an increase of cut over time in the play. And
5 what you're doing -- you have to reduce the reservoir
6 pressure to start to mobilize the oil. There are
7 differing opinions as to, you know, is the mobile
8 totally -- is the oil totally immobile? Is there some
9 mobile oil? But when you look at the wells that are
10 producing 100 percent cut for 30 days or 45 days, then
11 it's pretty clear that there is not much mobile oil.

12 Q. It's the same idea as the colts [sic;
13 phonetic]? Crudely.

14 A. Yeah. You could say it's somewhat similar.
15 Yeah. You're talking about dewatering there. Right,
16 similar.

17 Q. Let me ask you a question. My next question
18 is -- I'm going back to Exhibit Number 2. You
19 highlighted the 1H, if you look over here. It's the
20 Decker 1H in Section 20. Can you give me an idea? How
21 much reserves do you think you are losing on that well
22 by doing the standard setbacks?

23 A. Well, in just -- if you want to you do it
24 proportionately, it's about 10 percent.

25 Q. Okay. So what you're saying, for clarity

1 **purposes, you're adding 10 percent reserves by going to**
2 **100-foot setbacks?**

3 A. Yes. Also on the performance side, too,
4 naturally.

5 EXAMINER McMILLAN: Go ahead, if you have
6 questions, Scott.

7 EXAMINER DAWSON: Okay.

8 CROSS-EXAMINATION

9 BY EXAMINER DAWSON:

10 Q. **Mr. Maxey, on the well in Section 28, the top**
11 **one, the Trinity #1, do you have an idea about how much**
12 **oil that well produced? Was that a San Andres well?**

13 A. No. It's a deeper well.

14 Q. **Oh, deeper. Okay?**

15 A. There is no San Andres production in this
16 nonsection area other than the Decker.

17 Q. **The Decker 1H?**

18 A. Yes.

19 Q. **How much has the Decker 1H produced; do you**
20 **know?**

21 A. That was completed right at the -- I believe at
22 the end of November. I know there is December
23 production, and that was all water. But it's produced
24 about 11,500 barrels of oil so far. And the gas -- the
25 first month of gas that was reported was February. So

1 hydrocarbons started moving from January through
2 February and you're getting your increases.

3 Q. That's all the questions I have. Thank you,
4 Mr. Maxey.

5 EXAMINER McMILLAN: Do you have any
6 questions, David?

7 EXAMINER BROOKS: No.

8 EXAMINER McMILLAN: Thank you very much.
9 That was a nice presentation.

10 THE WITNESS: Thank you.
11 Go ahead.

12 MR. LARSON: Just a quick clarification:
13 You'd like an affidavit from Special Energy's geologist.
14 Exhibit 2 is his work product.

15 EXAMINER McMILLAN: Yes. Okay. That needs
16 a case number in case there are any questions down the
17 road. Thank you very much.

18 MR. LARSON: I have nothing further.

19 EXAMINER McMILLAN: Okay. So, therefore,
20 you're requesting that Case Number 16079 shall be taken
21 under advisement, correct?

22 MR. LARSON: Correct. And I will
23 supplement the record.

24 EXAMINER McMILLAN: Thank you.

25 Your landman also did an excellent job. I

1 want that on the record, too.

2 (Case Number 16079 concludes, 9:04 a.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 9th of June 2018.

21

22

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