

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 COG Operating, LLC,
for Compulsory pooling, Eddy County, CASE NO. 21344
New Mexico.

and

Application of WPX Energy Permian, LLC
for a Horizontal Spacing Unit and CASE NO. 21371
Compulsory Pooling, Eddy County,
New Mexico

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS

THURSDAY, OCTOBER 22, 2020

These matters came on for hearing before
the New Mexico Oil Conservation Division, Felicia
Orth, Hearing Examiner, Leonard Lowe, Technical
Examiner, via Cisco Webex Virtual Meeting Platform

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A P P E A R A N C E S

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1 (Time noted 9:30 a.m.)

2 HEARING EXAMINER ORTH: So let me call the next
3 two cases. These are our last two cases this morning.
4 21344, COG Operating is the applicant, Compulsory Pooling
5 Application. The well is Rock Jelly.

6 Who here is for COG?

7 MS. MUNDS-DRY: Good morning, Madam Hearing
8 Examiner. I think we may have a little echo situation
9 here. Does it sound echo-y on your side, too?

10 HEARING EXAMINER ORTH: A little bit.

11 MS. MUNDS-DRY: We'll try to work on that.
12 Sorry about that.

13 Madam Hearing Examiner, good morning.
14 Ocean Munds-Dry here for COG Operating, LLC, and appearing
15 with me is Michael Rodriguez.

16 HEARING EXAMINER ORTH: Thank you.

17 And we have the other party in this matter
18 is WPX Energy Permian. Mr. Savage, are you here for WPX?

19 MR. SAVAGE: Yes, Madam Examiner. Darin Savage
20 with Abadie & Schill's Santa Fe Office on behalf of WPX
21 Energy and WPX Energy, LLC. I'd just like to point out
22 that also a colleague Bill Zimsky from Durango is online,
23 as well.

24 HEARING EXAMINER ORTH: Thank you. And the
25 other matter is 21371. This is a related matter,

1 compulsory pooling and other things applied for. The well
2 is French Well 22-15.

3 Are there any other appearances besides COG
4 and WPX in 21344 or 21371?

5 No? In that case who will be presenting
6 their witnesses first?

7 MS. MUNDS-DRY: Madam Examiner, we're glad to do
8 it any way you would like. We were thinking because
9 Concho filed its application first, perhaps we would go
10 first, but we don't feel strongly about it either way

11 HEARING EXAMINER ORTH: All right. Mr. Savage,
12 do you have any objection?

13 MR. SAVAGE: No, that sounds good. We agree to
14 that.

15 HEARING EXAMINER ORTH: Ms. Munds-Dry?

16 (Note: Discussion off the record re sound
17 issues.)

18 HEARING EXAMINER ORTH: Ms. Munds-Dry?

19 MS. MUNDS-DRY: Madam Examiner. Mr. Rodriguez
20 and I are at the opposite ends of a conference room, and I
21 think that's really what's perhaps causing the issue, so
22 could I just have one minute and I will relocate to a
23 different location? I apologize for the delay.

24 HEARING EXAMINER ORTH: Absolutely.

25 MS. MUNDS-DRY: Thank you.

1 MR. RODRIGUEZ: Madam Examiner?

2 HEARING EXAMINER ORTH: Hello, Mr. Rodriguez.

3 MR. RODRIGUEZ: Good morning.

4 HEARING EXAMINER ORTH: Yes. Good morning.

5 MR. RODRIGUEZ: While Ms. Munds-Dry is getting
6 set up, we actually have three witnesses that can be sworn
7 in, and we could actually start on our opening, as well.

8 HEARING EXAMINER ORTH: Terrific. If you would
9 please give me your witnesses' names.

10 MR. RODRIGUEZ: Our witnesses are Hunter Hall as
11 our landman, Will Neely as our geologist, and Shane Volk
12 as our reservoir engineer.

13 (Note: The above-named witnesses were duly
14 sworn by the hearing examiner.)

15 HEARING EXAMINER ORTH: So the witnesses are
16 sworn. Mr. Rodriguez, if you would like to make an
17 opening statement.

18 MR. RODRIGUEZ: Yes. Thank you. Thank you for
19 taking the time after the regular docket to hear these
20 matters today. I'd like to start off by identifying what
21 land is at issue today.

22 The only overlapping land in dispute
23 between the parties is the west half of Section 15. This
24 land is wholly owned, 100 percent of the working interest,
25 by COG.

1 As to the competing spacing units,
2 approximately 96 percent of the working interests is
3 committed to COG's unit. The last and only working
4 interest party COG seeks to pool is WPX's 4 percent
5 working interest, whereas only 50 percent of the working
6 interest is committed to WPX's unit. The other 50 percent
7 is owned by COG.

8 COG's evidence and testimony will
9 demonstrate COG's commitment to drilling and prudently
10 operating it's three-mile wells, and how desirable the
11 project is to COG along with the other working interest
12 owners.

13 Specifically the evidence will show that
14 not only did COG initiate the pooling process before WPX
15 by proposing its wells and filing its pooling application
16 first, COG has actively taken further steps to prepare for
17 the development of this project. It has executed a deal
18 to secure acreage in Section 15 to allow COG to propose
19 its three-mile development, and filed for and received
20 approved federal APDs for all the wells proposed in the
21 application today. Further, COG plans to drill these
22 wells within a year of an Order, if the Division were to
23 grant its application.

24 Additionally, as will be seen in the
25 testimony exhibits today, COG engaged in a good-faith

1 effort to obtain voluntary joinder with all working
2 interest owners in COG's proposed spacing unit, including
3 WPX.

4 In regards to geology, the evidence in both
5 cases will illustrate that the geology underlying the
6 units is uniform and no geologic impediments prohibit
7 lateral development of the underlying reserves in either
8 development plan.

9 The evidence will also show that more
10 broadly COG's development plan will facilitate the most
11 efficient and economic means of developing all of
12 Sections 3,10 15 and 22.

13 Finally, when applying the competing
14 compulsory pooling application factors individually and as
15 a whole, the evidence and testimony will demonstrate that
16 COG's development plan is the best suited plan to protect
17 correlative rights, prevent waste, and prevent the drill
18 ing of unnecessary wells; therefore COG respectfully
19 requests that the Division grants COG's application and
20 deny WPX's application.

21 Thank you.

22 HEARING EXAMINER ORTH: Thank you,
23 Mr. Rodriguez.

24 Mr. Savage, would you like to make an
25 opening statement at this time or would you like to wait

1 until you're presenting your witnesses?

2 MR. SAVAGE: Madam Examiner, I prefer to wait
3 until I present the witnesses on that.

4 HEARING EXAMINER ORTH: All right. Thank you
5 very much.

6 Mr. Rodriguez.

7 MR. RODRIGUEZ: Sure. I would like to call my
8 first witness who is Hunter Hall, the landman for COG.

9 THE WITNESS: Hello, Madam Examiner.

10 HUNTER HALL,
11 having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. RODRIGUEZ:

14 Q. Good morning, Mr. Hall. What is your occupation
15 with COG?

16 A. I'm a landman on the --

17 HEARING EXAMINER ORTH: I'm sorry, Mr.
18 Rodriguez. I'm having difficulty hearing Mr. Hall.

19 THE WITNESS: Madam Examiner, can you hear me?

20 HEARING EXAMINER ORTH: Yes, I can hear you
21 better now. Thank you.

22 THE WITNESS: Okay. Ill speak a little louder.

23 A. (Continued) To answer Mr. Rodriguez' question,
24 I am a landman over our Delaware Basin West North assets
25 in Eddy County, New Mexico.

1 Q. Mr. Hall, have you testified before the Division
2 before?

3 A. I have.

4 Q. And were your credentials as an expert landman
5 accepted and made a matter of record?

6 A. They were.

7 Q. And you submitted Exhibit A, which is your
8 Verified Statement along with Exhibits A-1 through A-3?

9 A. I did.

10 Q. And you also provided an update Exhibit A-2,
11 correct?

12 A. Correct.

13 Q. And could you explain what changed from the
14 first iteration to the updated version?

15 A. In the updated version we removed XTO Holdings,
16 LLC. We received their election to participate in our
17 Rock Jelly Development plan.

18 Q. When did COG receive XTO's election?

19 A. We received it on the 20th of this month.

20 Q. Thank you. Are the statements in your Verified
21 Statement and exhibits true and accurate?

22 A. They are.

23 Q. And do you adopt your written testimony under
24 oath?

25 A. I do.

1 MR. RODRIGUEZ: Madam Examiner, I would like to
2 move the admission of Exhibits A and A-1 through A-3 into
3 the record.

4 HEARING EXAMINER ORTH: All right. Thank you.
5 Mr. Lowe, do you have any questions about those exhibits?

6 TECHNICAL EXAMINER LOWE: I have a question.

7 The exhibits that was initially submitted,
8 and the latter portion that was submitted at a later time
9 basically remove COG from (inaudible).

10 MR. RODRIGUEZ: I believe Mr. Hall can speak to
11 that.

12 THE WITNESS: Can you restate the question? I
13 had a hard time hearing you.

14 TECHNICAL EXAMINER LOWE: The exhibits that were
15 submitted initially, I guess I want to know what the
16 changes were again.

17 THE WITNESS: Absolutely. So we removed XTO
18 Holdings, LLC, as a party to be pooled because of their
19 election to participate in the well, and we also -- one
20 addition that we made at the bottom of the exhibit was
21 just outlining the total percentage of committed working
22 interest owners versus the uncommitted.

23 TECHNICAL EXAMINER LOWE: Okay. I would -- next
24 time, if you have to amend any exhibits that you're going
25 to update, just resubmit the whole entire exhibit with the

1 newest addition or the change that you had done. It will
2 be easier for the OCD to process that on our side instead
3 of trying to reassemble everything that you submit
4 piecewise.

5 MR. RODRIGUEZ: I apologize about that, and we
6 can absolutely -- I took note of that, and we will
7 absolutely do that in the future.

8 TECHNICAL EXAMINER LOWE: It will just
9 streamline our end, because basically we're assembling
10 your exhibits for you. This will be okay for right now,
11 and I don't want to fill up our end with a bunch of
12 information that we already have, like, existing right
13 now, but I guess this is for everybody, as well, just to
14 be sure that whatever amendments are being made that even
15 though it could be a large amount, I mean sizewise, but it
16 will be easier for us to process in reference to those
17 changes on our side.

18 That's all I have, the questions for now.
19 Thank you.

20 MR. RODRIGUEZ: Mr. Examiner, just to point out
21 that if it makes it any easier, the only change that
22 occurred between the exhibits was the removal of XTO from
23 the pooled party list, and we recalculated the total
24 working interest that's elected into our unit. It's
25 essentially the same thing except one person is being

1 shifted, or one entity is being shifted. You know, you
2 can make those notes on either one of those, as well, if
3 you would like.

4 TECHNICAL EXAMINER LOWE: Okay. That's fine.

5 HEARING EXAMINER ORTH: Thank you.

6 Mr. Savage, did you have any questions
7 about these exhibits or objection to their admission?

8 MR. SAVAGE: Madam Examiner, yes, I have a
9 number of questions for cross-examination. I'm trying to
10 find my -- here we go. The exhibit.

11 CROSS EXAMINATION

12 BY MR. SAVAGE:

13 Q. Mr. Hall, I want to thank you for your time and
14 your consideration in these proceedings.

15 When did you start looking at the title and
16 ownership for the sections involved?

17 A. So I actually moved to the team in February,
18 which is when I became involved in the Rock Jelly project.

19 Q. February, 2019?

20 A. 2020. My counterparts had begun looking at this
21 title well before I --

22 Q. Oh, so you haven't -- in terms of the history of
23 the project itself, when did COG start looking at the
24 title and ownership?

25 A. I can't tell you the exact time just because

1 there were other landmen working the project, but I would
2 estimate we were looking at this in the beginning of 2019,
3 and midyear of 2019 as well.

4 **Q. And did that review include Section 15 or did it**
5 **just include Sections 3 and 10?**

6 A. At the time we -- I believe that we were working
7 towards a trade with EOG for Section 15, so we thought
8 that if that were to be successful that we could
9 potentially include Section 15. But the title opinion
10 that we have for Section 3 and 10 did not include Section
11 15 at the time.

12 **Q. But in your original well Proposals, and those**
13 **were dated September 19, 2019, you proposed the Rock Jelly**
14 **wells as a two-mile well covering Sections 3 and 10 only;**
15 **is that correct?**

16 A. That is correct.

17 **Q. So it looks like to me that the focus was**
18 **Section 3 and 10. Is that fair to say at that time, and**
19 **not 15?**

20 A. I'm not exactly sure what you mean by "fair,"
21 but I would say that we proposed the two-mile development
22 plan with the idea it was possible that we would acquire
23 Section 15, and if that were the case we had every
24 intention to develop Sections 3, 10 and 15 together with a
25 three-mile plan.

1 Q. Okay. And typically before you send out a well
2 Proposal, do you evaluate the geology, production and
3 economics of the proposed wells before you send out the
4 well Proposal?

5 A. Yes.

6 Q. Is that standard?

7 A. That's a fair assumption, yes.

8 Q. In this case did you make the evaluation prior
9 to or at the time or shortly after the well Proposals? It
10 sounds like basically answered that question, is that
11 correct, that it was about the time of the well Proposals
12 or right before?

13 A. I would just add that at the time of the initial
14 proposals in 2019 we had reason to believe that we were
15 going to be successful in acquiring Section 15, so I
16 actually believe that our evaluation process included
17 multiple evaluations, but we weren't sure if the 15 trade
18 with EOG was going to occur, and so we proposed the wells
19 at two miles at the time.

20 Q. Okay. And so it looks like possibly you were
21 sure enough to go ahead and apply for the -- to make the
22 APD applications with the BLM.

23 When did you submit those?

24 A. I would have to talk to our surface group, our
25 regulatory group to know the exact date we submitted

1 those, but I believe it was in the third quarter of '19.

2 Q. So if the BLM records showed, for example, they
3 were admitted around November of 2019, that would sound
4 reasonable?

5 A. Yes, that would sound reasonable.

6 Q. Okay. And the federal applications for APDs,
7 they are quite an undertaking, wouldn't you agree, in
8 terms of investment of time and energy and including
9 getting all the information together.

10 A. I would say that, yes. And I think that our
11 intention in the APD process with the approved APDs we
12 have currently is to simply sundry the bottom hole
13 locations with --

14 (Note: Reporter inquiry.)

15 HEARING EXAMINER ORTH: Mr. Hall's voice drops
16 occasionally. Mr. Hall, if you would keep your voice up.

17 THE WITNESS: Yes, ma'am. Thank you.

18 A. (Continued) I guess what I added to the comment
19 was that our intention with the APDs that we have approved
20 is to simply sundry the bottom hole location to our
21 three-mile development plan since our surface hole
22 location is not changing.

23 Q. So you would agree that the APD application is
24 governed by strict federal regulations?

25 A. Yes.

1 Q. And what kind of information would you have to
2 provide in an APD application? Do you have experience
3 with that?

4 A. I would not say that that is my area of
5 technical expertise.

6 Q. But would you assume production information?

7 A. Uhm, I'm not sure what I would assume, with that
8 area not being my area of expertise.

9 Q. And your APD applications, what sections do they
10 cover?

11 A. Section 3 and 10 at the time of the
12 applications.

13 Q. Okay. And that corresponded to your well
14 Proposals; is that correct?

15 A. That would be accurate at the time of the
16 initial proposals in 2019.

17 Q. And it did not cover Section 15.

18 A. It did not cover it.

19 Q. So about a month and a half, let's say two
20 months after you submitted your applications for the APDs,
21 it looks like, if you would agree, that you had evaluated
22 and analyzed the production, economics and geology for a
23 two-mile unit.

24 A. That is accurate. But again I would add that
25 internally we had reason to believe that we would acquire

1 Section 15, and we ran those evaluations in parallel, and
2 believed if we did acquire Section 15 that we had every
3 intention to develop a three-mile development plan, as
4 proposed currently.

5 Q. But for the application itself to present it to
6 the BLM you have to -- do you agree you have to have a
7 good-faith representation, and that as a result COG felt
8 like that the application satisfied -- that the analysis
9 of the production, economics and geology was sufficient to
10 go forward with the application for the two-mile unit?

11 A. I believe that our application for the APDs on a
12 two-mile level were in good faith, and I believe that our
13 sundrying of those APDs would also be in good faith, given
14 that, again, we did not know for sure if we would acquire
15 15, but we felt good about that process.

16 So that's what I would add on that.

17 Q. Mr. Hall, in your Verified Statement you state
18 in your testimony that the APDs for the proposed wells
19 were approved on October 8, 2020. Is that correct?

20 A. That is correct.

21 Q. And that's fairly recent. That's just like in
22 the past couple of weeks.

23 A. Yes, that's right.

24 Q. And you sent out the second well Proposal, and
25 that was dated April 22nd, 2020, for the Rock Jellys as

1 three-mile wells, the well Proposals that is included in
2 your exhibit. Is that correct?

3 A. That is correct.

4 Q. So, Mr. Hall, when you say in your testimony
5 that the proposed wells were approved October 8, 2020, as
6 of that approval date does that statement refer to the
7 three-mile wells in your well Proposal as Exhibit 3, or
8 does that approval apply only to the two-mile wells in
9 your original well Proposal covering the two-mile unit in
10 Sections 3 and 10.

11 A. That refers to the two-mile APDs.

12 Q. Okay.

13 A. But that the process in which we sundry those,
14 we believe will be pretty quick.

15 Q. So at this point the BLM has not approved
16 three-mile wells or the three-mile unit in its federal
17 lands, but only the two-mile unit. Correct?

18 A. Our understanding is that our two-mile APDs, the
19 surface locations are not going to change. The only thing
20 that's going to change is bottom-hole location in Section
21 15, which we own 100 percent. So we have no reason to
22 that BLM would deny that application for sundry for any
23 reason.

24 Q. And my understanding here -- let's see. On
25 paragraph 15 of your testimony you briefly discuss the

1 effort COG made to reach an agreement with WPX. It looks
2 like you made just a couple of statements, rather general
3 descriptions. Can you recall some of the specific
4 proposals and scenarios discussed that were proposed by
5 WPX, for example?

6 A. I think that -- there's a little bit of echo.
7 Can everyone hear me?

8 HEARING EXAMINER ORTH: I can hear you. I
9 would just ask Mr. Savage not to rustle papers.

10 MR. SAVAGE: I've got so many papers around
11 here. Sorry.

12 HEARING EXAMINER ORTH: Just not while he's
13 speaking.

14 Go ahead, Mr. Hall. Keep your voice up.

15 THE WITNESS: Thank you, Madam Examiner.

16 A. (Continued) I can recall there were a variety of
17 different proposals exchanged between the parties, and I
18 would say that some of them included scenarios in which
19 Concho evaluated trading WPX'S interest out of Section 3,
20 which they own in the northeast of Tract 3 on the exhibit;
21 and then we proposed potentially trading into some of
22 Concho's acreage in this Township. And then of course
23 where we kind of at now through those proposals and where
24 we weren't able to reach an agreement was the final
25 proposal that WPX proposed, was a proposal that would

1 allow for Concho to operate the west half of 15 and 22,
2 and then drill two-mile wells in the west half of 3 and 10
3 and then three-mile wells in the east half of 3, 10 and
4 15, which we respectfully declined, due to feeling that
5 our plan was the best opportunity for Concho to produce
6 our fair share of the wells.

7 Q. Did you realize during the negotiations that
8 there were interest owners confined -- not just WPX but
9 other interest owners confined to Section 22 only that
10 would not benefit from COG's proposal covering Sections 3,
11 10 and 15 but excluding Section 22?

12 A. I think that -- I'm not sure what you mean by
13 Concho excluding Section 22. I would just say that my
14 evaluation from a land perspective analyzed the owners and
15 the project as it pertains to Sections 3, 10 and 15.

16 Q. So the offer that WPX made, and that was that
17 WPX would offer to be a non-op but just within the
18 two-mile covering Sections 15 and 22, if COG would be,
19 willing to drill and operate Sections 15 and 22, and also
20 be willing to drill and operate Sections 3 and 10, both as
21 two-mile wells.

22 You understood that that was made in an
23 effort to protect the correlative rights of the owners in
24 Section 22 and to prevent waste in all directions?

25 A. I understand the intent of WPX's proposal, but

1 Concho is -- EOG is of the opinion that developing
2 Sections 3, 10 and 15 is the most efficient and is the
3 most just way for Concho to develop our fair share of the
4 minerals in Sections 3, 10 and 15, but I do understand
5 where WPX is coming from.

6 **Q. In your opinion as a professional land**
7 **professional, what would become the fate of Section 22 if**
8 **COG develops 15, 10 and 3?**

9 A. Uhm, I believe the fate of the section is -- I
10 really think that's kind of up to WPX, but I think the
11 section can be drilled with one-mile laterals.

12 **Q. The proposal that WPX provided, that would have**
13 **provided COG with a total of four miles of operation**
14 **across all the sections; is that correct?**

15 A. Uhm, I think that the question that you ask is
16 referring to the final proposal.

17 **Q. The final proposal, correct? Yes.**

18 A. The final proposal actually wouldn't allow for
19 us to have full four-mile potential, because we would not
20 control the east half of Section 22. That would be WPX,
21 which WPX is developing with Tap Rock to the south with
22 extended laterals that are longer than two miles.

23 **Q. On the west half, on the west half of Section 3,**
24 **10, 15 and 22, you would be able to operate two two-mile,**
25 **wells?**

1 A. Uhm --

2 **Q. Under WPX's proposal.**

3 A. I think under WPX's final proposal what Concho
4 would be able to operate, hypothetically if that proposal
5 would be accepted by Concho, we would operate wells in the
6 west half of 15 and 22, and two miles only in the west
7 half.

8 **Q. But that would be your decision to do that, but**
9 **you have the full options to develop all those sections,**
10 **right?**

11 A. I think that Concho would have the option to
12 pursue that plan. I will defer to my technical
13 counterparts if that is what we would do from a
14 geological --

15 **Q. Okay.**

16 A. -- perspective.

17 **Q. So you would have the opportunity to develop the**
18 **four miles in the west half of those sections, and it**
19 **would just be a matter of what COG decided to do, that**
20 **they would think in terms of the best interests.**

21 A. Yes. And I think as my technical counterparts
22 will testify to is that a world in when Concho, uhm, is
23 development and nature, we believe is not the most
24 economic and efficient way to do so.

25 **Q. Mr. Hall, another item I'd like to ask about on**

1 your Exhibit A-2 -- and I think we discussed this. This
2 has been altered a little bit. So you show XTO as owning
3 100 percent interest in Tract 1. Is that correct?

4 A. That is correct.

5 Q. And what well is included? What well covers
6 Tract 1?

7 A. I believe that, if I recall correctly, and I
8 could look at our APDs and --

9 Q. That's all right. One of the wells, right? One
10 of the wells.

11 A. Yeah. I think that one of the pads is located
12 on XTO's leasehold, which they have agreed via letter to
13 allow us to do so.

14 Q. Okay. And in your experience as a landman, is
15 it true that you can't apply for an APD until you own
16 interest in every tract in the trade-in?

17 A. I think that --

18 Q. Either through --

19 (Note: Reporter inquiry.)

20 MR. SAVAGE: I realize that. I apologize.

21 Sorry, Mr. Hall.

22 A. Our understanding is that we have elections
23 from -- we have elections from XTO and a letter agreement
24 allowing for us to -- it's really just a letter from XTO
25 agreeing to allow Concho to utilize the surface in Tract 1

1 to develop Sections 3, 10 and 15.

2 Q. Is the wellbore and the lateral penetrating
3 Tract 1?

4 A. Yes.

5 Q. Okay. So at the time of your application for
6 the APD you did not own interest in the land; is that
7 correct?

8 A. Concho did not own an interest in Tract 1, but
9 at the time we did have early conversations with XTO as to
10 our ongoing negotiations as to how we would utilize their
11 surface, which was agreeable for them.

12 Q. Okay. So do you think that the APD application
13 for that wellbore was premature?

14 A. I don't believe so.

15 Q. And you're not pooling XTO; is that correct?

16 A. We are not, because we've reached a voluntary
17 agreement for them to elect to participate in our
18 development plan.

19 Q. Is that -- is that -- have they executed the
20 JOA?

21 (Note: Reporter interruption.)

22 Q. (Continued) Yes, Mr. Hall. Have they executed
23 the JOA?

24 A. At this time XTO has not executed the JOA;
25 however, we have multiple forums in this area that we've

1 agreed to with XTO, and our understanding is that we will
2 have no problem reaching voluntary joinder on the
3 operating agreement.

4 **Q. So basically at this point they just checked off**
5 **an election and signed a letter.**

6 A. They signed their election letters.

7 **Q. They signed the election letters?**

8 A. Signed the election letters, and also we have
9 the letter that states that we can utilize Tract 1
10 surface.

11 **Q. So by not pooling XTO without a JOA, under the**
12 **statute would you agree that you acquire interest either**
13 **by pooling or through an actual execution of a JOA?**

14 A. I think that our understanding is that XTO is
15 going to execute the JOA in good faith, and we believe
16 that that that will occur.

17 **Q. But do you think you increase the risk of not**
18 **having their interest accounted for and included in the**
19 **unit by excluding them from the pooling?**

20 A. I think there is business risk associated there.
21 Like, I think that XTO could potentially not sign the
22 operating agreement, but I'm unsure why they would sign
23 election letters and then not sign the operating
24 agreement. We have every reason to believe that they will
25 execute the operating agreement and participate in our

1 proposed development plan.

2 Q. So could -- could you not pool XTO and then once
3 you sign the JOA, uh, you know, have them -- have the
4 pooling would not apply to them?

5 A. I mean I suppose technically we could pool them,
6 but in reasonability we believe that they are going to
7 participate in our development plan, and there's some good
8 faith there in terms of what we believe they will do with
9 the operating agreement, since we've come to voluntary
10 joinder with them multiple times in Eddy.

11 Q. So you're willing to subject the process to
12 increased risk --

13 A. I don't --

14 Q. -- as a result of that good faith?

15 A. I don't think that we're willing to subject the
16 process. I don't think that that is the intent. I think
17 the intent is that XTO has executed election letters,
18 plans to participate, has done a full evaluation of the
19 project, and agrees that the three-mile development plan
20 is the best way to move forward, and we just have a couple
21 of items in the OA that they would like to discuss, and we
22 feel confident that they will move forward with signing
23 the OA.

24 Q. Mr. Hall, as an experienced land professional,
25 which do you generally prefer for development of a unit, a

1 **one-mile well or a two-mile well?**

2 A. I would say as a land professional that I defer
3 to my technical counterparts which wells we will drill my
4 job is to put together the units and make sure that we
5 have the legal opportunity to produce the minerals.

6 **Q. How long have you worked for COG?**

7 A. I've worked for Concho for two and a half years.

8 **Q. So you have been involved in a lot of**
9 **discussions over those two and a half years of what to**
10 **develop and what not to develop?**

11 A. Sure.

12 **Q. Generally what is the preference, based on your**
13 **experience of hearing the discussions over two and a half**
14 **years?**

15 A. So I think Ill first say Ill certainly defer to
16 my technical counterpart Shane on how our portfolio is
17 managed and what we evaluate from an engineering
18 perspective, but we evaluate projects across the board,
19 three-mile, two-mile, and even one-mile. Some may have
20 priority over others for various reasons, but Shane will
21 testify to that.

22 **Q. Do you agree that the trend is to do two miles**
23 **over one mile?**

24 A. Uhm, I think that in terms of Concho's portfolio
25 that we prefer to drill laterals that are both efficient

1 and economic, and in this case we believe that the way to
2 do so is to develop Sections 3, 10 and 15 at three-mile
3 laterals.

4 Q. Okay. Can you at least understand WPX's
5 position in this hearing, preferring a two-mile well over
6 a one-mile well?

7 A. I can certainly understand it.

8 MR. SAVAGE: Thank you, Mr. Hall. I have no
9 further questions.

10 HEARING EXAMINER ORTH: All right, Mr. Savage.

11 Mr. Rodriguez, do you have any follow-up?

12 MR. RODRIGUEZ: Yes, Ma'am, I would like to
13 redirect Mr. Hall.

14 REDIRECT EXAMINATION

15 BY MR. RODRIGUEZ:

16 Q. Mr. Hall, there was a lot of -- Mr. Savage spoke
17 to a lot of the negotiations in his cross. Would you
18 agree that the back-and-forth negotiations between the
19 companies, even though they could not reach an agreement,
20 it was done in good faith?

21 A. Absolutely.

22 Q. And do you agree, or are you aware that the New
23 Mexico pooling statute allows an applicant to pool a party
24 at the time of the application or at a later date?

25 A. Yes, I am.

1 Q. And so if XTO doesn't sign this JOA for whatever
2 reason, even though we're confident that they will,
3 couldn't we just come back and pool them at a later date?

4 A. Yes, we could.

5 MR. RODRIGUEZ: Thank you. That's all my
6 questions.

7 HEARING EXAMINER ORTH: All right. Let me unmute
8 myself.

9 Thank you, Mr. Rodriguez. Is there
10 anything further before we excuse Mr. Hall?

11 I will accept your exhibits.

12 MR. RODRIGUEZ: Perfect.

13 HEARING EXAMINER ORTH: Anything further?

14 MR. RODRIGUEZ: No.

15 TECHNICAL EXAMINER LOWE: I've got a few
16 questions.

17 HEARING EXAMINER ORTH: Sorry?

18 TECHNICAL EXAMINER LOWE: I've got a few
19 questions.

20 HEARING EXAMINER ORTH: Sorry.

21 TECHNICAL EXAMINER LOWE: This is Leonard. I've
22 got a few questions.

23 HEARING EXAMINER ORTH: Oh, all right. Please
24 go ahead, Mr. Lowe.

25 CROSS EXAMINATION

1 BY TECHNICAL EXAMINER LOWE:

2 Q. Good morning. When were you made aware that XTO
3 agreed to a JOA?

4 A. Uhm, in the Rock Jelly project, in Sections 3,
5 10 and 15 they have not executed the OA. I suppose my
6 answers to Mr. Savage's questions about the OA referred
7 to, uh, we have a form that we commonly agree to with XTO
8 in Eddy County in this direct area, and we believe that
9 the form that they will execute for this project will be
10 substantially similar.

11 TECHNICAL EXAMINER LOWE: Okay. Uhm, that's all
12 I have for now. Thank you.

13 THE WITNESS: Thank you.

14 HEARING EXAMINER ORTH: All right. Thank you.

15 So now if there's nothing further, Mr. Hall
16 you're excused.

17 And, Mr. Rodriguez, if you would call your
18 next witness.

19 MR. RODRIGUEZ: Thank you. I'd like to call
20 Mr. Will Neely, a geologist for COG. Oh, he's there.

21 WILLIAM C. NEELY,
22 having been duly sworn, testified as follows:

23 DIRECT EXAMINATION

24 BY MR. RODRIGUEZ:

25 Q. Mr. Neely, what is your occupation with COG?

1 A. I'm a geologist for COG Operating.

2 **Q. Okay. And how long have you been working with**
3 **COG?**

4 A. I've been with COG since January of 2019.

5 **Q. And how long have you been a geologist?**

6 A. For that entire time.

7 **Q. Have you testified before the Division?**

8 A. I have not.

9 MR. RODRIGUEZ: Madam Examiner, we can go over
10 Mr. Neely's qualifications on the record; otherwise,
11 behind Mr. Neely's Verified Statement is his resume, which
12 also covers all of his qualifications. Uhm, however you
13 would like me to proceed, let me know.

14 HEARING EXAMINER ORTH: All right. Mr. Savage
15 do you have any objection to Mr. Neely being recognized
16 for the purpose of giving expert testimony?

17 MR. SAVAGE: No, objections, Madam Examiner.

18 HEARING EXAMINER ORTH: Let's go ahead,
19 Mr. Rodriguez.

20 MR. RODRIGUEZ: Thank you. So at this time I
21 would like to tender Mr. Neely as an expert in petroleum
22 geology matters.

23 HEARING EXAMINER ORTH: All right. He is so
24 recognized.

25 **Q. Mr. Neely, you submitted Exhibit B, which is**

1 **your Verified Statement, and attachments A through D,**
2 **correct?**

3 A. Correct.

4 **Q. Are those statements you provided in your**
5 **Verified Statement and exhibits true and accurate?**

6 A. They are.

7 **Q. And do you adopt your written testimony under**
8 **oath?**

9 A. I do.

10 MR. RODRIGUEZ: I'd like to move the admission
11 of Exhibit B and Attachments A through D into the record.

12 HEARING EXAMINER ORTH: Mr. Savage, do you have
13 any objection?

14 MR. SAVAGE: No objections.

15 HEARING EXAMINER ORTH: All right. Thank you.

16 MR. RODRIGUEZ: And then I pass the witness.

17 HEARING EXAMINER ORTH: All right. Thank you
18 very much, Mr. Rodriguez.

19 Mr. Savage, do you have questions of
20 Mr. Neely?

21 MR. SAVAGE: Yes, ma'am. I have a few questions
22 of Mr. Neely.

23 CROSS EXAMINATION

24 BY MR. SAVAGE:

25 **Q. (Inaudible) Master's program in geology; is that**

1 correct?

2 A. Yes, sir.

3 Q. That's impressive. Do you still go back to
4 Stillwater periodically?

5 A. I haven't been back since I graduated.

6 Q. Oh, no. It's such a great place. It's a great
7 place.

8 Did you conduct or review the geology for
9 COG's APD applications covering Sections 3 and 10 for the
10 original Well Proposals?

11 A. For the original Well Proposals, I did not. I
12 joined this team, I believe in May of this year.

13 Q. Did you communicate with the previous
14 geologists?

15 A. I did.

16 Q. You did. So you have -- you could say you
17 reviewed that information or received that information of
18 that application; is that correct?

19 A. Yes, sir, I did.

20 Q. Okay. Did you find the geology in Sections 3
21 and 10 to be optimal for the development, production of
22 the drilling of the two-mile wells that's proposed if you
23 looked at just the two-mile unit?

24 A. We -- relating geology to a two-mile or
25 three-mile versus one-mile kind of question of

1 development?

2 Q. Just looking at the two-mile proposal as
3 originally proposed. Looking at the geology of Section
4 3 and 10 do you find the geology optimal for the
5 development of a two-mile? I mean, you may think it's
6 optimal for the development of a three-mile well, but in
7 terms of what you would receive from a two-mile well,
8 would it optimize what you would expect from a two-mile
9 well?

10 A. I see the geology as for our target, especially,
11 really continues for Sections 3, 10 and 15.

12 Q. So it would be optimal for the development of a
13 two-mile unit the way it would, in your opinion, it would
14 be for a three-mile?

15 A. Wait. Repeat the question again.

16 Q. So it sounds like because of the uniformity of
17 geology for Section 3 and 10, and as it looks like you
18 would agree that you would point out that uniformity would
19 extend to Section 15, if you look just at 3 and 10 that
20 would be an optimal development for a two-mile unit.

21 A. I'm having a hard time defining optimal in terms
22 of lateral and geology together. What I can say is the
23 geology for our preferred target interval is continuous,
24 like I said, through 3, 10 and 15.

25 Q. So it sounds like you have experience with

1 expectations of a two-mile well. Drill ing a two-mile
2 well in Section 3 and 10, that would meet those
3 expectations based on the geology of what you would expect
4 production from a two-mile well?

5 A. What would I expect -- to repeat your question,
6 what I would expect from a two-mile well for the geology
7 as related to production?

8 Q. Yes.

9 A. I can't really comment on the actual production,
10 so I'll defer to my counterpart as far as the overall
11 production of any of the wells. I can only speak to the
12 geology, and for Sections 3, 10 and 15, I do believe is
13 consistent for our preferred target interval.

14 Q. And therefore the subset of 3 and 10 it would
15 also be optimal, as well, if you did a two-mile well. It
16 would produce optimally for a two-mile if you drilled it;
17 it would produce, in your opinion, optimally for a
18 three-mile well if you drilled it, the geology, because
19 it's that good.

20 A. Again I'm having a hard time with the word
21 optimal in Sections 3 and 10 versus 3, 10 and 15. To me
22 it's kind of a broad term. Just looking at the rock, and
23 rock quality, based on all of our well data, you know, for
24 Sections 3, 10 and 15 I do believe that our preferred
25 interval is consistent again, and for our

1 preferred development is --

2 (Note: Reporter interruption.)

3 Q. Okay. So the geology is good, in your opinion,
4 for a three-mile well.

5 A. Yes.

6 Q. And therefore as a subset would you agree that
7 the geology would be good for a two-mile well if COG
8 decided to drill a two-mile well?

9 A. To be lateral and continuous through 3, 10 and
10 15 I think the geology would be good through the entire
11 length of that lateral.

12 MR. SAVAGE: Okay. Thank you, Mr. Neely.
13 Appreciate it. Thank you. No further questions.

14 HEARING EXAMINER ORTH: Thank you, Mr. Savage.
15 Mr. Lowe, do you have any questions of
16 Mr. Neely?

17 TECHNICAL EXAMINER LOWE: I do not. Thank you.

18 HEARING EXAMINER ORTH: All right. Thank you.

19 Mr. Rodriguez, do you have any redirect?

20 MR. RODRIGUEZ: No, Madam Examiner, I do not.
21 Thank you.

22 HEARING EXAMINER ORTH: All right. Thank you
23 very much.

24 If you would, then, uhm -- he was
25 recognized, the exhibits submitted. If you would then

1 move to your third witness.

2 MS. MUNDS-DRY: Thank you, Madam Examiner.

3 Appreciate you allowing me to switch locations down the
4 hall.

5 I would like to call our next witness,
6 Mr. Shane Volk. Mr. Volk is a reservoir engineer with COG
7 Operating, and he is familiar with the application and the
8 engineering matters in this case.

9 He has submitted a Verified Statement which
10 is included as Exhibit, COG's Exhibit No. C, and he also
11 has a number of exhibits in support of the application
12 besides Tab C.

13 Before I go further, his qualifications are
14 listed in his Verified Statement. He has not previously
15 testified before the Division. I am happy to ask Mr. Volk
16 all those questions, but let me pause there and see if you
17 would like me to do that or if Mr. Savage has any concerns
18 about qualifying him as an expert witness.

19 HEARING EXAMINER ORTH: Thank you.

20 Mr. Savage, do you object to Mr. Volk being
21 recognized as an expert for this proceeding?

22 MR. SAVAGE: No objections, Madam Examiner.
23 Thank you.

24 HEARING EXAMINER ORTH: All right. Thank you
25 very much.

1 Please go ahead, Ms. Munds-Dry.

2 MS. MUNDS-DRY: Thank you, Madam Examiner.

3 SHANE VOLK,

4 having been duly sworn, was examined

5 and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. MUNDS-DRY:

8 Q. Ill then ask Mr. Volk: Mr. Volk, is the
9 Verified Statement that we've submitted to the examiners
10 in this hearing, is it a true and accurate statement of
11 your testimony in support of COG's application?

12 A. Yes.

13 Q. And do you adopt your written testimony under
14 oath here today?

15 A. Yes.

16 MS. MUNDS-DRY: With that, Madam Examiner, we
17 would ask that Mr. Volk's Verified Statement, which is
18 Exhibit No. C, and Exhibits C-1 through C-5 be admitted
19 into evidence.

20 HEARING EXAMINER ORTH: Thank you very much.

21 And is he ready to stand for questions?

22 MS. MUNDS-DRY: Yes, ma'am.

23 HEARING EXAMINER ORTH: All right.

24 Mr. Savage, Do you have questions of
25 Mr. Volk?

1 OOps. Hold on.

2 MR. SAVAGE: Yes, ma'am, I have questions.

3 HEARING EXAMINER ORTH: Thank you.

4 CROSS EXAMINATION

5 BY MR. SAVAGE:

6 Q. Mr. Volk, you state in your testimony, Verified
7 Statement, paragraph 4, that the Exhibits C-1 through C-5
8 demonstrate that COG's plan is the most efficient way to
9 develop the acreage for the prevention of waste and the
10 protection of correlative rights; is that correct?

11 A. Yes, it is.

12 Q. So I realize you are not an attorney, but as a
13 professional in the oil and gas industry and as you have
14 testified to correlative rights and waste, what do you
15 consider forms of waste to look for in New Mexico?

16 A. In my opinion forms of waste would be anything
17 that does not efficiently or economically develop the
18 resource.

19 Q. So it's an issue of production that's the
20 primary thrust of waste is the extent of the production of
21 the resource?

22 A. No, sir, I don't agree with that. I think it's
23 a combination of capital and production. It's an economic
24 question more than it is a production question.

25 Q. Have you looked at the New Mexico statutes on

1 this? Are you familiar with them? I know you're not an
2 attorney so I'm not going to ask you for a legal
3 interpretation, but are you familiar with the forms of
4 waste as expressed in the New Mexico statutes?

5 A. I have not personally looked at the statutes,
6 no.

7 Q. So you do agree there is a main component of
8 waste that focuses on lack of optimal production, that
9 product left in the ground that otherwise could have been
10 extracted is waste is the main trust of waste and how we
11 view it in New Mexico?

12 A. As I stated, I'm not familiar with the exact
13 definition but I will defer to Legal in terms of what our
14 interpretation of waste means.

15 Q. It's certainly a component of that. As you
16 point out, economics come into play, as well, in certain
17 aspects.

18 What New Mexico refers to as underground
19 waste, that also plays a component in waste any time a
20 land professional evaluates whether waste occurs; is that
21 correct?

22 A. Could you simplify the question for me? I'm not
23 sure exactly what you're asking.

24 Q. So you agree that underground waste from
25 production, product left in the ground, is a component of

1 waste that a land professional would look for. You would
2 want to optimize production; is that correct?

3 A. I would say that I think our development
4 Sections 3, 10 and 15 will prevent waste.

5 Q. That's not what I asked. I asked if you think
6 that lack of production, product being left in the ground,
7 is a component, perhaps an important component of waste.

8 A. I think it can be a part of how we evaluate
9 waste, yes.

10 Q. Thank you. And then you also point out that
11 economics play a role in your understanding of waste.

12 A. Yes.

13 Q. But you acknowledge you really don't understand
14 which takes priority or which might be more important than
15 the other; is that correct?

16 A. More important to who, Mr. Savage?

17 Q. More important to the evaluation of waste on the
18 public's behalf by the Division.

19 A. Uhm, all I can tell you is that we are confident
20 that our development plan in Sections 3, 10 and 15 will be
21 the most efficient way to develop it and prevent waste.

22 Q. But that's predicated on your understanding
23 exactly what waste is and what role it plays; is that
24 correct?

25 A. Sure, yes.

1 Q. Thank you. Where in your exhibits do you
2 provide any actual production data showing that production
3 of the proposed three-mile unit is optimal and no
4 hydrocarbons will unnecessarily be left in the ground?

5 A. My exhibits speak more to the economics than
6 they do the actual production values.

7 Q. And as you had stated before, you don't fully
8 understand the priority between production and economics
9 in terms of what's considered more important in terms of
10 the waste, in terms of how New Mexico views waste; is that
11 correct?

12 A. Well, I think what I'm trying to tell you is I
13 have not looked at the statute and I cannot recite that
14 for you, but what I can tell you is that we do not develop
15 anything that is not economic.

16 Q. Okay. Okay.

17 A. Or we would not propose anything that we do not
18 believe is the most efficient and economic way to develop
19 the resource.

20 And I think I need to leave that there.

21 Q. Would you agree that the role of the Division is
22 to promote conservation, and conservation is an effort to
23 ensure that optimal production is obtained; the actual
24 extraction of the hydrocarbon from the ground, that the
25 optimal extraction is obtained? That's the Division's

1 role in promoting conservation. Would you agree with
2 that?

3 A. Can you repeat that? I'm sorry.

4 Q. Would you agree that one of the main roles of
5 the OCD, the Division, is to ensure that the optimal
6 amount of hydrocarbon or product is extracted from the
7 ground of each well?

8 A. Can you define what optimal means?

9 Q. So the federal regulations when you apply for
10 the APD application, it says "the maximum amount of
11 product." So optimal would analogous or equivalent to
12 maximum. Would maximize the production of the reservoir.

13 A. Are you asking if I would agree that that --

14 Q. That is one of the primary roles of the Division
15 is to determine that conservation is promoted in that way.

16 A. Well, I guess my understanding is that it's --
17 my role in this is to ensure that our development plan is
18 the most efficient and economic way to develop it, and I
19 believe that's what our plan does.

20 Q. Okay. You referenced a term CapEx. I assume
21 that's capital expenditure.

22 A. Yes.

23 Q. That reflects an economic value, an economic
24 determination?

25 MS. MUNDS-DRY: I'm sorry to interrupt,

1 **Mr. Savage. Is there an exhibit that you're referring to**
2 **that we can follow along?**

3 MR. SAVAGE: Yes. That's Exhibit C-1. Thank
4 you.

5 **Q. Exhibit C-1.**

6 A. Okay. Yes, I see. Can you be more specific
7 with the part of the slide you're referring to?

8 **Q. Yes, I believe it says there's \$2 million (sic)**
9 **additional net CapEx involved. There's a list of values**
10 **that you list under economic recovery of sections.**

11 A. Yes. CapEx is capital expenditures, and that is
12 an input to the economic evaluation.

13 **Q. Okay. Does CapEx, can that show the examiner**
14 **production data or underground waste data? Can the**
15 **examiner look at the CapEx value and determine whether or**
16 **not there's waste by lack of production?**

17 A. So what that statement indicates is that for
18 Concho to develop with WPX's proposal we would have to
19 spend additional CapEx to recover a similar amount of
20 reserves, which we deem to be inefficient and not as
21 economic.

22 **Q. But only within the economic arena, not in terms**
23 **of production.**

24 A. With respect to capital expenditures, yes,
25 that's what I was saying.

1 Q. In your Exhibit C-3 you show that the presence
2 of COG's operations in Sections 15 and 20, Exhibit C-3
3 here, you show that the operations in Sections 2, 15 and
4 20 (sic) would result in 50 percent more surface locations
5 -- would result in 50 percent actual -- that -- let's see:
6 Show that the (inaudible) of this operation in Section 15
7 and 20 would result in 50 percent more surface location.

8 Is that correct?

9 A. That is correct.

10 Q. But wouldn't the same surface space be used
11 whether WPX drills a one-mile well in Section 22 or a
12 two-mile well in Section 15 and 22?

13 A. So the slide is relative to our current
14 development plan to develop 3, 10 and 15, and our plan is
15 best suited to minimize surface disturbance.

16 Q. But there's really no surface difference
17 assuming -- if you would assume that WPX is going to drill
18 a one-mile well or a two-mile, there's going to be no
19 differential of surface usage.

20 If you do the three-mile plan and WPX does
21 a one-mile plan, you don't gain -- the area does not gain,
22 you know, 50 percent value in that regard.

23 A. Yeah, I see where you're coming from.

24 My slide was designed to show the impact to
25 the development of the resource in Sections 3, 10 and 15,

1 which is where Concho has its interest.

2 **Q. So really the slide presupposes that Section 22**
3 **will be stranded and not developed?**

4 A. No, I don't think that's fair to say.

5 **Q. But to get the value of the preferred plan on**
6 **surface area that you purport, that would have to be the**
7 **underlying assumption; is that correct?**

8 A. Our assumption or our main point here is that we
9 can access our reserves with less surface disturbance.

10 **Q. And it doesn't matter what happens to**
11 **Section 22.**

12 A. As I have stated before, we believe that our
13 development plan in Sections 3, 10 and 15 is the most
14 economic and efficient way to develop the resource.

15 **Q. Do you recognize there's owners that are**
16 **stranded in Section 22 that would not benefit from your**
17 **development, their correlative rights would be harmed? Do**
18 **you realize that?**

19 A. What is your definition of stranded, if you
20 don't mind?

21 **Q. Well, our witnesses will speak to that, but**
22 **generally stranded would be that it's not capable -- it's**
23 **not being developed.**

24 A. So if you are asking me if I think it would be
25 stranded, would you mind elaborating? Are you saying it

1 will not be developed ever, or are you trying to say that
2 it will not be developed today.

3 Q. That's a complicated question. We will get into
4 that with our witnesses on that. I'm going to pass on
5 that for the time being, but we will address that.

6 THE WITNESS: I'm sorry. Excuse me. My light
7 just turned off in my office. I'm sorry. I need to go
8 turn it on again real quick. (Note: Pause.)

9 THE WITNESS: Apologies.

10 MS. MUNDS-DRY: We have very energy efficient
11 offices.

12 MR. SAVAGE: Yes. Thank you. I'm going to move
13 to the next question.

14 Q. In paragraph 7 of your Verified Statement you
15 state that Exhibit C-4 illustrates that COG's development
16 plan would lead to more area stimulated because of the
17 offset area.

18 Is that correct?

19 A. Relative to Sections 3, 10 and 15, yes,
20 that's -- we believe you get more completed lateral per
21 section with our development plan.

22 Q. But again isn't this diagram premised on the
23 fact that Section 22 will not be developed or not come
24 into play in the operations?

25 A. No, the intent was to show the impact of one

1 development plan versus the other and why we believe
2 Sections 3, 10 and 15 is the most economic and efficient
3 way to develop that resource.

4 Q. But if you compare that to -- if you develop the
5 three-mile well and you compare that to the one-mile unit
6 that WPX is left with, they would also have the offset
7 area, as well, that would not be stimulated, the offset,
8 as your offset area would not be stimulated, and that
9 would affect the overall production of 3, 10, 15, 22 in
10 the same way.

11 A. So again I only have the current diagram in
12 front of me, but I would say that our development plan,
13 regardless of how Section 22 is developed, is going to
14 limit -- or maximize the amount of completed lateral in
15 these four sections.

16 Q. What would you say is the purpose of the offset,
17 the 330 offset requirement?

18 A. I don't want to speculate on the purpose of
19 that.

20 Q. Okay. Would you agree that the 330 offset
21 prevents the operator from infringing on the rights of
22 owners in an adjacent unit?

23 A. I think it does do that, yes.

24 Q. And therefore you would agree, then, that's
25 basically the definition of correlative rights. You would

1 agree that its purpose is to protect correlative rights.

2 A. Yes, but I think that -- yes.

3 Q. And in paragraph 5 of your Verified Statement
4 you state that the preferred plan would allow for 15,180
5 foot of total lateral; is that correct?

6 A. Yes, it is.

7 Q. Does that number match the actual length of the
8 three-mile well drilled once it's actually drilled? Is
9 that the actual length of the three-mile wellbore?

10 A. Are you asking if I included 330-foot setbacks
11 in that number?

12 Q. No, I'm asking in terms of once you get the
13 lateral into the ground what you end up with in terms of
14 productive wellbore.

15 A. Yeah. So we calculated that with 330-foot
16 setbacks, yes.

17 Q. Have you drilled any -- has COG drilled any
18 other three-mile wells in New Mexico?

19 A. We have not drilled a three-mile well in New
20 Mexico.

21 Q. Have not. Okay. We were uncertain about that.
22 We thought that perhaps you had drilled one.

23 But you say you have never drilled a
24 three-mile well in New Mexico. Have you drilled a
25 three-mile well at all?

1 A. I'm not completely familiar with all our
2 details, but, yes, I believe yes, that we have done so in
3 Texas.

4 Q. But you're not sure how many. It could be one?

5 A. I don't have the number in front of me, no.

6 Q. In your Exhibit C-2 and C-3 it looks like your
7 laterals are spaced quite a bit further away from each
8 other, and WPX's laterals, looks like maybe even twice as
9 much horizontal spacing. Do you agree with that?

10 A. Yes, we do have wider spacing than WPX.

11 Q. Is this an optimal spacing for recovery?

12 A. Yes. We believe that it is optimal, and -- yes.

13 Q. Does this horizontal spacing map correspond to
14 spacing by other operators or other experienced operators
15 in the area, or --

16 A. You'll see a variety of spacing across this area
17 from, uhm -- there's a variety of spacing. I think we all
18 probably define optimal spacing differently.

19 Q. Do you have any idea what the others are
20 spacing?

21 A. I -- not exactly. But I do know that there are
22 some that are wider than -- or more tight than ours.

23 Q. Are there others that are wider than yours?

24 A. I can't speak to all of the projects. I know
25 there are some wells, single wells, but I'm not sure of

1 any that are wider.

2 Q. So yours is -- probably it looks like the
3 widest.

4 A. So I would -- if you are asking me about optimal
5 spacing, it's -- uhm, you know, we believe the best way to
6 optimize spacing is to limit the interference between
7 wells, and we believe that our plan is the most efficient
8 and economic way to do that.

9 Q. So limit the interference between wells, is that
10 to account for a drilling risks or is that to account for
11 better production?

12 A. It's better production.

13 Q. All right. Well, thank you, Mr. Neely. I have
14 no further questions -- or Mr. Volk, I have no further
15 questions.

16 HEARING EXAMINER ORTH: Thank you, Mr. Savage.

17 Mr. Lowe do you have questions of Mr. Volk?

18 TECHNICAL EXAMINER LOWE: Yes, just a quick
19 question in reference to your exhibits here.

20 CROSS EXAMINATION

21 BY TECHNICAL EXAMINER LOWE:

22 Q. Good morning, sir. How are you doing?

23 A. Good morning. I'm great. How are you?

24 Q. Spectacular so far.

25 Your map, your map indicates at location.

1 **At location here, is this on State -- who is the surface**
2 **owners for this location?**

3 A. I would refer to my land counterpart to answer
4 that question.

5 TECHNICAL EXAMINER LOWE: Okay. All right.
6 That's all I have for now. Thank you.

7 HEARING EXAMINER ORTH: Thank you, Mr. Lowe.

8 Ms. Munds-Dry, do you have any redirect?

9 MS. MUNDS-DRY: I have nothing further. That
10 concludes our direct case.

11 HEARING EXAMINER ORTH: All right. Thank you.
12 So Exhibit C is admitted, and thank you for your
13 presentation.

14 MS. MUNDS-DRY: Madam Examiner, I should -- I
15 apologize for interrupting. I should say we may wish to
16 call Mr. Volk back on rebuttal. It just kind of depends
17 on how the WPX part of it goes, but I just wanted to put a
18 little asterisk in that.

19 HEARING EXAMINER ORTH: All right. Thank you.

20 MS. MUNDS-DRY: Thank you.

21 HEARING EXAMINER ORTH: Rebuttal is certainly
22 allowed.

23 Shall we take a brief break before we begin
24 with Mr. Savage's presentation?

25 MS. MUNDS-DRY: That sounds good.

1 HEARING EXAMINER ORTH: All right. Let's
2 reconvene at 10 of 11:00.

3 (Note: In recess from 10:44 a.m. to 10:50 a.m.)

4 HEARING EXAMINER ORTH: Reconvening on Case Nos.
5 21344 and 21371. When we broke COG had completed its
6 presentation. We move now to the presentation by WXP
7 Energy Permian.

8 Mr. Savage.

9 MR. SAVAGE: Thank you. Uhm, so I guess I'll
10 begin with an opening statement. I didn't have one
11 formally prepared but there are a number of things I would
12 like to point out to make the Division aware of as we look
13 at WPX's application.

14 So the Division should be well aware that
15 original Well Proposal was for a two-mile, COG'S original
16 well Proposal was for a two-mile well, and that covered
17 Section 3 and 10. And that corresponds to both their APD
18 application and the recent approval of the APD
19 application, which includes only Sections 3 and 10 and not
20 Section 15.

21 When WPX received this Well Proposal they
22 were satisfied with it, they did not object, because it
23 allowed for proper development of their -- the lands of
24 interest, and that would be Sections 15 and 22, and they
25 felt, you know, comfortable that they would be able to go

1 ahead and develop those two sections.

2 And so they continued their normal course
3 of operations of developing those sections, working on
4 those sections in coordination with other sections,
5 numerous other sections that they were working on in this
6 area.

7 It was only after they received the second
8 Well Proposal that repropose and redefined the unit that
9 they then became concerned.

10 Now, although COG was the first party to
11 make application, that does not mean that WPX sat on its
12 hands and did nothing. Immediately upon receiving the
13 second Well Proposal they entered into negotiations to try
14 to resolve this matter, to try to find a proper outcome, a
15 proper solution that would resolve it and would avoid
16 expending resources on fighting it out before the
17 Division.

18 So WPX initiated their efforts right at the
19 time that COG proposed their wells, and those efforts were
20 ongoing at the time that COG made their application to the
21 Division, and it continued after that until a point where
22 they realized that the matter was not going to be resolved
23 and the only option was to file a competing application.

24 So the idea that COG got the ball rolling
25 is really not applicable when you put it in its proper

1 perspective. WPX has 100 percent interest in the -- in
2 Section 22, and therefore it has 50 percent interest in
3 the entire unit proposed of 15 and 22. And we realize
4 that COG has a 92 to 96 percent in 3, 10 and 15, but the
5 overriding issue in this is the Division's responsibility
6 for the conservation on behalf of -- conservation of
7 resources on behalf of the public. Not just the private
8 rights of the parties involved with the private economic
9 rights but the production, protection and development of
10 the resources on behalf of the public. And the question
11 of underground waste, not producing the reservoir
12 properly, those really are the primary considerations in
13 looking at the question of waste.

14 So with that as a preface, I guess I need
15 to introduce three witnesses to be sworn in. Is that
16 correct?

17 So Mr. Aaron Young is our landman, and
18 Mr. Keegan DePriest is our geologist, and Mr. Justin
19 Stolworthy is our reservoir engineer.

20 HEARING EXAMINER ORTH: Would you please raise
21 your right hands.

22 (Note: Whereupon the above-mentioned witnesses
23 were duly sworn.)

24 MR. STOLWORTHY: I do.

25 MR. YOUNG: I do.

1 And this is Aaron Young and Keegan
2 DePriest, sharing a conference room.

3 MR. DePRIEST: I do.

4 HEARING EXAMINER ORTH: Thank you very much.
5 And that was all three of your witnesses, Mr. Savage.
6 Please proceed.

7 MR. SAVAGE: Madam Examiner, in Case No. 21371
8 WPX seeks an Order for creating a standard horizontal
9 spacing unit comprised of the west half of Section 15
10 and 22, Township 26, Range 29 East. Uh, 26 South, Range
11 29 East, Eddy County, New Mexico, and pooling all
12 uncommitted mineral interest owners in the Wolfcamp
13 Formation, Purple Sage, Wolfcamp Pool Code 98220,
14 designated by the Division as a gas field.

15 The unit will be dedicated to five proposed
16 horizontal wells: The French 22-15 Fed Com Wells, and
17 those consist of 411H -- I'm sorry 411H, 412H, 413H, 421H
18 and 422H.

19 Exhibit A in our hearing packet is the
20 testimony of Mr. Aaron Young, our landman, who is present
21 with us online. Mr. Young's qualifications are described
22 on page 12 of Exhibit A. He has previously testified
23 before the Division and his credentials have been accepted
24 as a matter of record. I tender Mr. Young as an expert in
25 petroleum land matters.

1 HEARING EXAMINER ORTH: All right. Is there
2 any objections?

3 Mr. Rodriguez? If one of you is speaking,
4 I'm not hearing it.

5 Let me think here. You're in control of
6 your own mute button. (Note: Pause.)

7 All right. Mr. Savage, I'm sorry. I'm not
8 seeing Ms. Munds-Dry or Mr. Rodriguez on the line with us.
9 I have made -- there's no one in the waiting room and I've
10 made everyone a panelist.

11 MR. SAVAGE: Madam Examiner, should we take a
12 break to figure out what is...

13 HEARING EXAMINER ORTH: Yes. I had thought
14 they were with us when I came back from the break -- I
15 distinctly remember seeing them there at the bottom of the
16 screen -- but they've disappeared.

17 So thank you for that, Mr. Savage. Let's
18 take a break. And Marlene, if you would please reach out
19 to them on the phone or by email.

20 MS. SALVIDREZ: I sure will.

21 HEARING EXAMINER ORTH: I see Mr. Rodriguez
22 joining us again.

23 Mr. Rodriguez?

24 MR. RODRIGUEZ: Hi, Madam Examiner. Can you
25 hear me now?

1 HEARING EXAMINER ORTH: Yes, I can hear you. We
2 seem to have lost you.

3 (Note: Pause to resolve sound issues.)

4 MR. RODRIGUEZ: Okay. Okay. Can you hear me
5 now?

6 HEARING EXAMINER ORTH: Yes, I can hear you.

7 MR. RODRIGUEZ: Okay. I'm so sorry. We thought
8 we had our conference room figured out, but that was not
9 the case. We were just talking into a black hole there.
10 But we are back.

11 HEARING EXAMINER ORTH: All right. Let me -- we
12 heard Mr. Savage's opening statement. I will not ask him
13 to repeat. I'm sure you're familiar with his case.

14 MR. RODRIGUEZ: We actually heard everything all
15 the way up until this moment right here. So we are all
16 caught up.

17 HEARING EXAMINER ORTH: Terrific. So do you
18 have any objection to the first witness being recognized
19 as an expert?

20 MR. RODRIGUEZ: No, Madam Examiner, we do not.

21 HEARING EXAMINER ORTH: All right. Thank you.

22 If you would, then -- sorry for the
23 interruption, Mr. Savage. Please proceed.

24 MR. SAVAGE: Thank you, Madam Examiner.

25 So Mr. Young's testimony, his written

1 testimony is submitted under oath, an affidavit and sworn
2 testimony.

3 Mr. Young's testimony highlights a number
4 of critical issues and determinations associated with
5 these competing cases. For example, in Mr. Young's answer
6 on page 17 of Exhibit A to the question of whether COG's
7 development plan undermines conservation and correlative
8 rights, he explains that it does, showing that COG's plan
9 traps and confines WPX in a one-mile unit when a two-mile
10 unit would provide for superior development.

11 He explains on page 18 that there are
12 owners confined to Section 22 whose correlative rights
13 would be benefited by WPX's plan but harmed by COG's plan.
14 Mr. Young states that these owners support WPX's
15 development over COG's plan.

16 On page 21 Mr. Young explains that WPX is
17 one of the most active operators in the area containing
18 the subject lands. WPX has 170 Wolfcamp wells in place
19 compared to COG's 28 horizontal Wolfcamp wells.

20 Mr. Young's testimony on pages 19 and 22
21 demonstrates the extent to which WPX tried to negotiate
22 in good faith with COG to reach a satisfactory resolution
23 and to avoid this hearing.

24 AARON YOUNG,

25 having been duly sworn, testified as follows:

1 DIRECT EXAMINATION

2 BY MR. SAVAGE:

3 Q. Mr. Young, are you present?

4 A. I am.

5 Q. Can you state your name for the record.

6 A. Aaron Young.

7 Q. And looking over your testimony, in Exhibit A
8 are there any areas that you would like to emphasize at
9 this time for the examiners that would add to the
10 statement I made?

11 A. Yes. I would just like to reiterate, as you
12 look at the area -- and part of the reason that WPX would
13 be effectively stranded to the one-mile units to the
14 south, Tap Rock has their existing WTG unit that covers
15 the west half of Section 27 and 34. In that west half Tap
16 Rock has seven Wolfcamp wells and that is confined only --

17 (Note: Discussion on sound issues.)

18 HEARING EXAMINER ORTH: I agree. It's better.
19 Thank you very much. That's fine.

20 THE WITNESS: Yes. That's fine. Sorry.

21 A. (Continued) Just to pick up where I left off,
22 the reason WPX holds the position on Concho's application
23 for three-mile units is we would be effectively stranded
24 as to the south of the west half of Section 27 and 34.
25 Tap Rock has seven existing Wolfcamp wells. And again

1 that's confined to a half section, which our technical
2 witnesses will reiterate on on the importance of proper
3 spacing and well count. Compare this to WPX's application
4 which has has five in a section equates to ten, or again
5 down to Concho's wider spacing addresses five wells, will
6 create waste and does not effectively (inaudible) the
7 reservoir.

8 In addition to that, and as my Exhibit 4
9 shows, we spent an extensive amount of negotiations to try
10 to come to a resolution with Concho. The latest and a
11 primary one was it was willing to take a non-op position
12 in the west half of Section 15 and 22. That would allow
13 Concho to still operate. This would develop all the
14 reservoir in question, Sections 3, 10, 15 in the west half
15 of Section 22 without creating waste, conditional on
16 conversations spacing (inaudible).

17 **Q. Yes, Mr. Young.**

18 **So let's turn to those exhibits real quick.**

19 **Exhibit A-1, what does it show?**

20 A. Exhibit A-1 is our draft C-102 for the five
21 wells.

22 **Q. And Exhibit A-2?**

23 A. Exhibit A-2 is our lease tract that shows the
24 interests we have in the west half of Sections 15 and 22,
25 and the interest owners and --

1 (Note: Reporter interruption.)

2 THE WITNESS: No, I apologize. I was reaching
3 for my exhibits, so I'll try to lean back.

4 Q. Exhibit A-3, what does it show?

5 A. Exhibit A-3 is a copy of Well Proposals for five
6 wells.

7 Q. And AFE costs are comparable to other operators
8 and reasonable.

9 A. That is correct.

10 Q. And what about Exhibit 4? This is the
11 negotiations that you were discussing. What does it show?
12 What are the primary areas of negotiations that the
13 parties entered into?

14 A. Correct. This is a timeline of our negotiations
15 with Concho. It concerns the west half of Section 15,
16 starting back with their original two-mile well Proposal
17 in September, the date that WPX first received the
18 three-mile Well Proposals in early March, which -- for the
19 following. Thereafter, WPX raised an objection to the
20 three-mile wells on the basis of the unproven nature as
21 well as effective stranding in west half of Section 22.

22 The timeline continues to show ongoing
23 negotiations between the parties, consisting of number of
24 different trade option as well as WPX's proposal to take a
25 non-op position condition on (inaudible) time and spacing,

1 as well as our negotiations with previous owners in
2 Section 15.

3 (Note: Reporter interruption. Discussion on
4 sound issues.)

5 MR. RODRIGUEZ: Madam Examiner, if it helps, we
6 don't object to any of the exhibits or the testimony, so
7 we would be okay with just not covering what's already
8 been covered in this Verified Statement.

9 HEARING EXAMINER ORTH: All right. Thank you
10 for that, Mr. Rodriguez.

11 MR. RODRIGUEZ: Mr. Savage, I too am having
12 trouble hearing Mr. Young. It sounds like he's speaking
13 under water.

14 MR. SAVAGE: Yes, I'm having a hard time
15 hearing, as well.

16 But there are a couple of questions on the
17 exhibits that I would like to highlight and ask, but I
18 will accept that offer of admitting the majority of the
19 exhibits with qualification if I could ask just a few
20 pointed questions.

21 HEARING EXAMINER ORTH: All right.

22 Please go ahead. And, Mr. Young, it may be
23 that we will be able to hear you better if you are closer
24 to your computer. And video is not necessary. I can see
25 that your signal is wavering at this moment.

1 Q. Mr. Young, the last proposal that you offered --
2 WPX offered a number of proposals during the course of the
3 negotiations. The last proposal, that sounds very
4 generous. Would you agree? Could you describe what that
5 proposal was and what it allowed COG to do?

6 Did we lose somebody?

7 HEARING EXAMINER ORTH: Mr. Young, can you hear
8 us?

9 He's clearly not muted.

10 (Note: Cell phone ringing.)

11 (Note: Discussion with witness off the record.)

12 MR. SAVAGE: Hey, that was Aaron, Mr. Young, and
13 he lost reception at his work station and he's moving to
14 another space to regain access.

15 HEARING EXAMINER ORTH: All right. We will
16 take a few minutes to wait for him.

17 (Note: Pause.)

18 MR. SAVAGE: Madam Examiner, can I go ahead and
19 request that Exhibits A, A-1 through A-7 be accepted into
20 the record?

21 HEARING EXAMINER ORTH: Yes.

22 Mr. Rodriguez, do you have any objections
23 to their admission?

24 MR. RODRIGUEZ: No objection.

25 HEARING EXAMINER ORTH: All right. Thank you.

1 They are admitted.

2 MR. SAVAGE: Thank you. I'm waiting for
3 Mr. Young to show up in the waiting room, Mr. Savage. I
4 don't see him yet.

5 (Note: Discussion off the record.)

6 THE WITNESS: I apologize for that, everyone. I
7 lost connection in my office, so we've all centrally
8 located to Justin's.

9 HEARING EXAMINER ORTH: All right. Go ahead,
10 Mr. Savage.

11 Q. Mr. Young, the last, the final proposal that --
12 I mean WPX offered a number of proposals during the
13 negotiations. The final proposal seemed to be the most
14 generous in the end. Would you agree with that?

15 A. I would agree with that, yes.

16 Q. And what would that have allowed COG to do?

17 A. That would have allowed them to develop both
18 their three-mile project on the east half of Sections 3,
19 10 and 15, as well as two two-mile projects, one being on
20 the west half of Sections 3 and 10 and the other on the
21 west half of Section 15 and 22 with WPX as a non
22 operator.

23 Q. So basically developing the whole area.

24 A. That's correct.

25 Q. Exhibit A-5, what's the significance of Exhibit

1 **A-5?**

2 A. Excuse me. (Note: Pause.)

3 **Q. It's -- looks like it's a plot that shows**
4 **numerous wells across this area.**

5 A. Thank you. Yes. A-5 is a map that shows
6 existing producing Wolfcamp wells in the immediate area
7 surrounding this application. In black is WPX's producing
8 Wolfcamp well, and in red is Concho's existing Wolfcamp
9 wells.

10 So it's taken off public data. It shows
11 the scope and scale of operations that's much higher in
12 favor of WPX.

13 **Q. And in comparison of WPX to COG in this area of**
14 **operation, how would you describe WPX's operations?**

15 A. WPX is one of, if not the most active operators
16 in this immediate area.

17 **Q. What does Exhibit 6, A-6, what's the**
18 **significance of this exhibit?**

19 A. A-6 is letters of support from two interest
20 owners that are confined to the west half of Section 22,
21 that again would effectively be stranded with approval of
22 COG's three-mile application.

23 **Q. So they would not benefit from COG's plan and**
24 **their correlative rights would be harmed; is that correct?**

25 A. That is correct.

1 Q. And therefore they support WPX's plan; is that
2 correct?

3 A. That's correct.

4 Q. What is Exhibit A-7?

5 A. A-7 is the original two-mile well proposal from
6 Concho for the Rock Jolly that consisted of Sections 3 and
7 10. (Note: Pause.)

8 Oh, no. Is everyone else still here? Is
9 Darin the only one that left?

10 MR. RODRIGUEZ: We're here.

11 MR. SAVAGE: Yes, sorry.

12 Q. Mr. Young, you supported this proposal; is that
13 correct?

14 A. We did not have any objections to this proposal.

15 MR. SAVAGE: Mr. Young -- the exhibits have all
16 been accepted. Mr. Young is available for questioning.

17 HEARING EXAMINER ORTH: Mr. Rodriguez, do you
18 have questions of Mr. Young?

19 MR. RODRIGUEZ: Yes, Madam Examiner, I do.

20 CROSS EXAMINATION

21 BY MR. RODRIGUEZ:

22 Q. Good afternoon, Mr. Young.

23 A. Good afternoon.

24 Q. All right. So we have a lot to cover, so I'll
25 do my best to keep everything on track and moving.

1 Mr. Young, do you agree that we are only
2 competing with respect to the west half of Section 15?
3 Correct?

4 A. I would agree.

5 Q. And WPX is not trying to pool Section 3, 10 or
6 the east half of 15?

7 A. That is correct.

8 Q. What is WPX's interest in the west half of 15?

9 A. It's zero percent. Zero percent working
10 interest.

11 Q. And what is COG's?

12 A. 100 percent.

13 Q. Could we turn to Exhibit A-7, please, which is
14 page 67.

15 A. Yes.

16 Q. These are in fact the two-mile, the original
17 two-mile development, correct?

18 A. That is correct. The proposal, yes.

19 Q. And not the most current?

20 A. That is correct.

21 Q. All right. Now turn to A-5, which is the
22 Wolfcamp well map.

23 A. Yes. Bear with me. Okay.

24 Q. Does this map cover wells in Texas?

25 A. It does.

1 Q. And both these proposals are in New Mexico?

2 A. That is correct.

3 Q. So if you were to take your hand and just kind
4 of cover up that Texas portion, how does the distribution
5 of wells look at that point?

6 A. If you were to cover up your hand and take out
7 three blocks that is in the immediate near vicinity of
8 these applications and ignore our Texas development, the
9 two would like much more equal.

10 Q. Okay. Is the geology similar, or what kind of
11 characteristics from a land perspective would you say
12 brings the New Mexico and Texas wells together to where
13 this is an appropriate measurement?

14 A. I'm not going to speak in great detail to the
15 geology or reservoir, I'd leave that to our expert
16 witnesses, but in the general immediate vicinity they are
17 similar.

18 Q. Mr. Young, you noted extensive discussions you
19 had with Concho in your testimony, and we just covered a
20 lot of that right now, as well. Would you agree that
21 there were a number of attempts at reaching agreement
22 between both parties?

23 A. I would agree.

24 Q. And the parties were just unable to reach an
25 agreement?

1 A. Yes, that's accurate.

2 Q. Do you agree that both parties made a good faith
3 effort to come to an agreement?

4 A. I would agree with that.

5 Q. Let's turn to your testimony on page 21, please.

6 You state that as to these applications WPX
7 brings considerable detail and experience to the table
8 based on past and current experience. Are you suggesting
9 that WPX is a more competent operative than Concho in
10 drilling Wolfcamp wells in New Mexico?

11 A. No, what I'm suggesting is that in this
12 immediate area, with the French and Rock Jolly
13 applications, WPX is the more experienced and has more
14 expertise.

15 Q. Okay. Now let's turn to page 16, please. Let
16 me know when you're there.

17 A. I'm there.

18 Q. Okay. In 16 you state that WPX developing two
19 depths will have a major impact on optimizing production
20 and preventing waste. Mr. Young, what land matters did
21 you use to evaluate and arrive at that conclusion?

22 A. Land matters?

23 Q. Right.

24 A. Uh, the -- in terms of spacing it's not
25 particularly a land matter, it's more technical.

1 Q. So you would say that's something that's outside
2 of your expertise to make a claim like that?

3 A. I would agree it is outside of my expertise, but
4 we work closely with our reservoir engineers and
5 geologists in terms of optimal development, and in this
6 case placing two targets in the Wolfcamp A, although I'm
7 not a geologist or reservoir engineer, it's commonly
8 accepted that WPX is the preferred method of development
9 in the area.

10 Q. Okay. And on that same page you noted that WPX
11 believes COG's plan is insufficient to extract the
12 hydrocarbons from these horizons.

13 Again, what land matters did you use to
14 arrive at that conclusion?

15 A. Land matters were not used, just discussions
16 with our technical team.

17 Q. All right. Let's turn to page 20, please.

18 A. I'm there.

19 Q. Your testimony states that two-mile wells are
20 the tried-and-true method for optimizing development while
21 minimizing waste and risk.

22 Again, Mr. Young, what land factors did you
23 look at to determine optimal development?

24 A. My response would be the same. It's not
25 particularly a land matter, just discussions with the

1 technical team and accepted knowledge.

2 Q. Are you aware of the WPX wells in the
3 neighboring east half of Section 22?

4 A. Our Horn proposals, our existing wells in the
5 section.

6 Q. Three existing wells?

7 A. I am aware.

8 Q. How long are those wells?

9 A. They are one-mile wells.

10 Q. Briefly can we look at Exhibit D-3, which is on
11 page 79?

12 A. This is the Concho scenario?

13 Q. I mean, it doesn't matter if --

14 A. That --

15 Q. Yeah.

16 A. Yep.

17 Q. That is correct.

18 So I see WPX in the east half of Section
19 22, and they look longer than one mile. Is that correct?

20 A. What's being shown on that exhibit is our
21 proposed unit, our Horn unit. It has not been formalized
22 yet, but this is representative of WPX's plan to create a
23 well that is longer than one mile.

24 Q. What is the proposed lateral length of those
25 Horn wells?

1 A. The Horn wells will be roughly about
2 two-and-a-third mile lateral.

3 Q. So when you claim a two-mile well being the
4 tried-and-true method for optimizing development, why
5 didn't you apply that logic to these Horn wells? They're
6 really right next door.

7 A. I'm not sure I follow your question.

8 Q. You testified that a two-mile well development
9 is the tried-and-true method for optimizing development
10 while minimizing waste and risk. Correct?

11 A. That's correct.

12 Q. Why didn't you apply that to your Horn wells?
13 Why are the laterals longer than two miles?

14 A. Sorry, I understand your question now.

15 Q. My apologies.

16 A. So the laterals are 2 1/3 miles, so, you know,
17 doing the math roughly off your head on what that extra
18 additional third would equate to, it's not that
19 significant and falls much closer -- again I would defer
20 to our technical team, but much closer to two-mile
21 development.

22 And as you look at what is our proposed
23 Horn unit, the last third mile of it is an irregular
24 section, and to ensure that no straining occurs with what
25 is the east of Section 34, we wanted to include that last

1 third.

2 Q. Thank you. All right. So back to your
3 testimony on page 20.

4 It's okay. I mean, if I refer back to it
5 and you'd like a moment to read it, that's fine, but I'm
6 just going to kind of talk in generalities.

7 You said you had initial discussions with
8 EOG, that EOG ultimately traded acreage with Concho.
9 Correct?

10 A. That's correct.

11 Q. Which allowed COG to propose it's three-mile
12 laterals into 15.

13 A. That would seem to be correct, yes.

14 Q. And when did WPX receive COG's three-mile
15 proposals?

16 A. I don't have the specific date in front of me,
17 but I believe it's March. March 3rd?

18 Q. Would March 11, 2020 sound reasonable?

19 A. Yes.

20 Q. Thank you. And when did COG notify WPX about
21 its trade with EOG for acreage in 15, allowing for its
22 three-mile proposals?

23 A. I don't have that specific date in front of me.

24 Q. Would it be reasonable to say it was the same
25 date, as well?

1 A. That would be reasonable.

2 **Q. And when did WPX send its French Well Proposals**
3 **out to working interest owners?**

4 A. I'm referring to my exhibit. One moment.

5 May 12th. May 12th of 2020.

6 While our initial objection to these
7 proposals were raised --

8 (Note: Reporter interruption.)

9 THE WITNESS: I apologize. I will sit still and
10 try to speak clearly and loudly.

11 HEARING EXAMINER ORTH: Thank you.

12 **Q. So this is roughly two months after Concho's**
13 **three-mile Well Proposals, correct?**

14 A. That is correct. Our two-mile Well Proposals
15 for the French were roughly two months after we received
16 Concho's three-mile election, and roughly a month and a
17 half after we raised our initial objection to the
18 three-mile proposal.

19 **Q. Thank you. And as we discussed earlier COG**
20 **filed its Compulsory Pooling Applications before.**
21 **Correct?**

22 A. That is correct.

23 **Q. Mr. Young, when do you plan to drill these**
24 **wells?**

25 A. Ultimately we have our Horn unit, which is the

1 unit in the east half of Section 22 that we've discussed,
2 targeted for the third quarter of 2021. To ensure the
3 optimal development of the section it would be ideal to
4 develop the two units at the same time, so if WPX is
5 successful in our application it would fall in the third
6 quarter of 201.

7 **Q. Are these wells on WPX's drill schedule?**

8 A. They are not currently on the drill schedule,
9 because, as you we know here today, we did not have a
10 Hearing Order that allows us to drill them.

11 **Q. That doesn't prevent you from putting them on**
12 **the drill schedule, though, correct?**

13 A. It doesn't --

14 **Q. To have an Order.**

15 A. Right.

16 **Q. I'm sorry.**

17 A. No, you're good. It doesn't prevent us from
18 putting it on the drill schedule, but in terms of business
19 planning for WPX as a unit, that is currently what we are
20 currently doing.

21 **Q. Have you submitted APDs for these wells?**

22 A. No, we have not submitted APDs. We do not own
23 in Section 15, so technically we can't.

24 **Q. What other steps, beyond sending out Well**
25 **Proposals and filing a Compulsory Pooling Application has**

1 **WPX engaged in to prepare for drilling its wells?**

2 A. As you can tell from our proposals and our gun
3 barrels and other exhibits, our technical team has done
4 extensive prep in preparing these French wells. We also
5 have looked at our surface locations in Section 22. This
6 goes back to Concho's exhibit about existing pads in the
7 south half of Section 22 that can be utilized for the
8 French wells, which will also limit surface waste and
9 surface impacts, as we can either use those existing pads
10 or add on to those existing pads for drilling and
11 production facilities.

12 **Q. All right. Do you have any capital allocated to**
13 **the project?**

14 A. We have capital allocated for 2021.

15 **Q. But not this project in particular?**

16 A. We have flexibility in our allocations and
17 budgets that -- yes, if this application was granted we
18 will be able to devote capital to it.

19 **Q. Thank you. If you look at page 17, you note**
20 **that Concho's proposing three-mile wells in the east half**
21 **of Sections 3, 10 and 15. You agree that WPX does not**
22 **object to these wells?**

23 A. That is correct. We do not object to the wells
24 because we do have the option to go to the south in
25 Sections -- the east half of Section 27 and 34, which goes

1 back to our proposed Horn unit which we've discussed.

2 Q. In your opinion, Mr. Young, if WPX had working
3 interests within any of the east half of those Sections 3,
4 10 or 15, would it elect into COG's three-mile wells?

5 A. We do have an interest in those, in that, but
6 potentially, yes, I could see us electing into a
7 three-mile well, although I think ideally we might want to
8 look at a mile-and-a-half as another optional development.

9 Q. And you state that COG's three-mile proposals
10 would introduce unnecessary risk into operations.
11 Correct?

12 A. Could you reference where I state that in my
13 testimony?

14 Q. Yes. That's on the top of page 18, I believe.
15 Yes, it's the third line down.

16 A. That is correct. And as my testimony goes on to
17 continue to say that our reservoir engineer can better
18 speak to the detrimental outcome of allowing COG to drill
19 three-mile wells.

20 Q. Are you aware that COG has already successfully
21 drilled a number, drilled and completed a number of
22 three-mile wells?

23 A. Was that in New Mexico?

24 Q. In Texas.

25 A. Oh, in Texas. I was aware that they had not

1 drilled any three-mile wells in New Mexico, and I'm not
2 particularly aware of their success in Texas, although I
3 believe it's in a different basin, which is quite
4 different from what we're discussing.

5 **Q. So you testified that WPX's plan would optimize**
6 **everyone's production and protect everyone's correlative**
7 **rights, correct? It's on page 17.**

8 A. Correct.

9 **Q. What does "optimize production" mean?**

10 A. If you wanted me to put it in landman terms,
11 although it's probably better to speak to our geologist or
12 engineer on "optimize," but it would be the maximum
13 ultimate recovery of the reservoir in the most
14 economically feasible way possible.

15 **Q. And how is it protecting everyone's correlative**
16 **rights?**

17 A. How is our application protecting everyone's
18 correlative rights?

19 **Q. Yes. You said that -- to circle back to your**
20 **testimony, you said that WPX's plan would optimize**
21 **production and protect everyone's correlative rights. So**
22 **how is WPX's plan protecting everyone's correlative**
23 **rights?**

24 A. The alternative being COG's application would,
25 again, effectively strand the west half of Section 22 to

1 one-mile development. One-mile development in its current
2 state, and our reservoir engineer can speak in more detail
3 to this, does not meet economic thresholds given current
4 market conditions. As market conditions improve,
5 ultimately one-mile wells still do not compete against
6 two-mile or extended lateral inventory. So when WPX as a
7 company, or really any operator kind of looks where to
8 allocate capital for projects, it's always going to lend
9 itself towards extended or two-mile projects, pushing
10 farther down one-mile development.

11 So in this sense if WPX is limited to one
12 mile, it will delay, to really an unforeseeable point in
13 time, when the west half of Section 22 will be developed.
14 So allowing two-mile, economic two-mile wells to be
15 granted protects the correlative rights of the interest
16 owners in Section 22 because it ensures development.

17 Q. Thank you. If we could turn to page 54, please.

18 A. I'm there.

19 Q. You state: Under COG's three-mile proposals WPX
20 would be left stranded to develop Section 22 on the
21 less-economic basis of one-mile development.

22 Do you see that in your email?

23 A. I do.

24 Q. Do you believe that developing one-mile laterals
25 is stranding the underlying acreage?

1 A. I believe in terms of an economic sense it is
2 effectively stranding.

3 **Q. Do you believe longer laterals are less likely**
4 **to strand underlying acreage than shorter laterals?**

5 A. Longer laterals are more economic in the sense
6 of development and timing, yes. They move up companies'
7 drilling inventory.

8 **Q. So you mentioned acreage in Section 22 is**
9 **stranded because of the less-economic opportunity afforded**
10 **by one-mile wells. Is this one-mile development**
11 **uneconomic or just less economic?**

12 A. Ultimately I would defer to our reservoir
13 engineer to speak on the economics. As a general, uh,
14 landman's version, to answer your question they are less
15 economic to a point that they do not fall in WPX's
16 portfolio and would not get drilled in the immediate
17 future.

18 **Q. So you consider acreage to be stranded if a**
19 **development plan is not economic enough for an operator to**
20 **drill in that moment?**

21 A. I would use the phrase "effectively stranded",
22 but yes.

23 **Q. What economic factors did you use to form your**
24 **conclusion that WPX's acreage will be stranded in Section**
25 **22?**

1 A. I'll begin by answering that our reservoir
2 engineer and geologist would be better suited to speak to
3 the economic factors that were considered, but after they
4 ran their analysis -- I don't like to speak on their
5 behalf, but after our engineers ran their analysis and
6 came back with typical things like rate of return or
7 present value on the project, that was the determining
8 factor on that the one-mile well would be less economic to
9 a point that it would fall off an operator's rig schedule
10 drilling program.

11 **Q. Thank you. Just so I'm clear, how do you define**
12 **stranding?**

13 A. How do I define stranding?

14 **Q. Yes.**

15 A. I would define stranding as leaving, uh, what
16 would be economic, and hydrocarbons that could be
17 produced, left in the ground.

18 **Q. Thank you. So a recurring them, Mr. Young, in**
19 **your testimony is the concept of correlative rights, and I**
20 **want to start just by kind of defining the contours of**
21 **what correlative rights is.**

22 **Do you have a definition of what**
23 **correlative rights is?**

24 A. If you want to define that for me I'll defer to
25 you.

1 Q. I'd like to hear your version of it.

2 A. Correlative rights is ensuring that each party
3 or interest owner receives their fair share of production.

4 Q. So a couple of things I'd add to that. I agree,
5 but also it's -- at least in New Mexico the concept is
6 defined as the opportunity to produce without waste its
7 just and fair share of the hydrocarbons.

8 Would you agree with that?

9 A. If that's how it's defined in New Mexico, I
10 would agree.

11 Q. Okay. So the word I'd like to point out, which
12 is first is the word, "Opportunity".

13 Is that opportunity still present to WPX in
14 Section 22 under COG's development plan?

15 A. I guess it would depend on how you define
16 opportunity. And in our terms, which requires certain
17 economic hurdles to be met, considering the current
18 industry environment, uh, pricing conditions, no, I would
19 not say that opportunity exists, if you want to define
20 opportunity in those terms.

21 Q. So let's just take economics out of it.

22 Does WPX still have the opportunity to
23 drill in Section 22?

24 A. If you were to take economics out of it, yes.
25 An operator or any operator could drill one-mile wells in

1 the west of Section 22.

2 Q. So does COG's plan allow WPX its opportunity to
3 produce the underlying hydrocarbons without waste?

4 A. Not in the way that I defined opportunity, which
5 means a requirement of certain economics, which also
6 Concho pointed out to in its exhibits in terms of why it
7 had the superior plan, referencing the economic recovery
8 of the hydrocarbons.

9 Q. Would you consider stranded acreage to be waste?

10 A. Yes.

11 Q. Because it's less economic than what WPX would
12 prefer at the moment?

13 A. Stranded acreage in general or specific to the
14 half of Section 22?

15 Q. So, in general, would -- if you see waste -- if
16 you see stranded acreage as, uhm, you testified earlier to
17 be an economic concept, at least as it goes to Section 22,
18 I would assume that you would agree that stranded acreage
19 leads to waste because it's less economic.

20 Is that a fair statement?

21 A. I would state that in terms of "effectively
22 stranded" it does have an element of economics to it.

23 Q. So would that be the driving factor for WPX to
24 claim that the acreage in 22 is stranded as it relates to
25 a less-economic circumstance?

1 A. Yes.

2 Q. So do you believe that one-mile laterals
3 inherently impair correlative rights by creating waste?

4 A. In one sense, yes, they do. Due to the
5 uneconomic nature of one-mile wells, they do create, uh,
6 stranding.

7 Q. And I believe it was testified to earlier that
8 waste is -- to prevent waste is essentially to produce the
9 hydrocarbons no matter what.

10 Is that correct? Did I understand that
11 correctly?

12 A. If I stated that, that probably wouldn't have
13 been the correct way to state it.

14 To do it, to prevent waste, protect
15 correlative rights, would produce the maximum amount of
16 hydrocarbons in the most efficient, economic way possible.

17 Q. But as to how it was testified earlier regarding
18 proceeding no matter what, what's stopping you from
19 creating waste -- why -- let me rephrase.

20 Why wouldn't you drill a one-mile well in
21 order to prevent waste in Section 22?

22 A. I guess I have a difficult time answering that
23 question because it seems to be just repeating what we've
24 discussed in terms of why we won't drill a one-mile well
25 in the west half of Section 22, and it's related to the

1 economics of it. And that really is kind of the heart of
2 why the west half of Section 22 as a one-mile well would
3 not be drilled.

4 Most operators do not drill uneconomic
5 wells.

6 Q. Are you currently aware of any one-mile
7 developments currently or that have been drilled in New
8 Mexico in 2020?

9 A. I'm not aware of the specifics, although I'm
10 sure they do exist.

11 Q. All right. Can we -- as it relates to your
12 testimony on page 17, you stated WPX believes COG's
13 development would unnecessarily trap and limit WPX to a
14 one-mile lateral instead of a two-mile development,
15 thereby undermining correlative rights in Section 22.

16 I'd like to break that statement down
17 further, if possible.

18 How is WPX trapped?

19 A. It is trapped to one-mile deployment due to the
20 existing wells of Tap Rock due to the south and their WTG.
21 There's seven Wolfcamp wells in the west half of Section
22 27 and 34. Obviously, to the north, which would include
23 the west half of Section 15, the disputed tract, if
24 Concho's application is approved obviously there would be
25 a unit to the north for the Rock Jelly and a unit to the

1 south for Tap Rock's WTG that would limit WPX as to
2 Wolfcamp development exclusively to the west half of
3 Section 22.

4 Q. But it's still, nonetheless possible to drill
5 one-mile wells, correct?

6 A. In terms of mechanically drilling a one-mile
7 well, yes, it is possible to still drill one.

8 Q. Forgive me if you just covered this, but has WPX
9 evaluated drilling lay-downs that extend into the
10 eastern -- or west of Section 22?

11 A. I believe if we look at the maps -- oh, actually
12 just rephrase.

13 No, we have not looked at drilling
14 lay-downs, although I ultimately will refer our reservoir
15 geologist to speak to this. But if you look at all the
16 existing development, stand-up is the preferred method in
17 the area.

18 Now, I'm basing that essentially off I
19 believe it's Exhibit A-5, which shows WPX and Concho's
20 existing Wolfcamp wells which are all in stand-up
21 orientation. That trend continues with other operators in
22 the area.

23 Now, there is also the existing pooling
24 unit that Mewbourne operates to the east that has working
25 wells.

1 Q. Thank you for that.

2 And is it possible that you could just farm
3 out that acreage to an operator that wants to drill
4 one-mile wells?

5 A. Yes, that's a possibility. Sure.

6 Q. Have you considered that?

7 A. We don't usually just look at things in terms of
8 farming out acreage. There's obviously a lot of other
9 considerations that would have to go into that. We just
10 don't accept deals just on the nature of what's available
11 to us. We look at first what is the most optimal for
12 development of our acreage.

13 Q. Okay. So when you say "unnecessarily trap" your
14 acreage, to be clear there's options available to you,
15 they are just not what WPX wants to do in the moment.
16 Correct?

17 A. The phrase "unnecessarily traps" refers to being
18 limited to a one-mile well. That remains the same as Tap
19 Rock -- or, excuse me, if Concho's application is approved
20 for three-mile, due to Tap Rocks's existing development.

21 So unnecessarily trapped to one-mile
22 development in Section 22 would stay the same.

23 Q. Thank you. So, Mr. Young, based on your
24 statement that under COG's plan WPX would be trapped and
25 limited to shorter laterals than proposed in Section 22,

1 is it fair to say that you believe this would lead to
2 impairing WPX's correlative rights?

3 A. I think that's fair to say.

4 Q. So, to borrow your own language, isn't it true,
5 then, that WPX's development plan, if granted, would also
6 trap and limit COG to shorter laterals than it has
7 currently proposed; that is, its development plan to go
8 from three miles to two miles?

9 A. The heart of kind of what we are discussing is
10 not necessarily shorter laterals, but one-mile laterals
11 vs. two-mile laterals, and in a sense vs. three-mile
12 laterals.

13 So although, yes, if WPX's application is
14 approved, its changes to the French unit, which is a
15 two-mile well, again that would be economic, and then
16 Concho, although their lateral would be shortened from a
17 three-mile, it would not go down to the less-economic
18 one-mile, it would go down to economic two-mile lateral.

19 Q. Okay. So, as I understand it, one-mile wells,
20 or in this circumstance your one-mile well, that is where
21 correlative rights are infringed upon. It's not a three-
22 or two-mile?

23 A. That is correct. For one-mile wells, yes, that
24 is where correlative rights come into question.

25 Now, as it relates to Concho's three-mile

1 wells, due to the fact that it traps us to the one-mile,
2 that's where three miles become in question, although
3 there is other questions as to the current viability of
4 three-mile, but our reservoir engineer can speak more to
5 that.

6 Q. All right. So on page 18 you stated that a
7 handful of overriding royalty owners located exclusively
8 in 22 will receive no benefit as to their interest in that
9 section due to our three-mile project directly north of
10 22. Correct?

11 A. That's correct. Those interest owners are
12 limited to Section 22 for the override that they own in
13 that section.

14 Q. But isn't it true that these owners would also
15 benefit from WPX developing Section 22, either with a
16 one-mile lateral farm-out, uhm, lay-downs that extended to
17 other sections, or any other variation?

18 A. It is true that these interest owners would
19 benefit from the scenarios just outlined, but as is kind
20 of discussed and tend to show these aren't really
21 considered, at least at WPX, viable options.

22 Q. So as it relates to those owners in particular,
23 their interests aren't solely dependent on whether an
24 outside operator such as Concho's performing operations to
25 the north in adjacent lands, correct?

1 A. I would agree they are not solely dependent to
2 Concho's or COG's application to the north, although they
3 are greatly impacted by it, as our exhibits and
4 application tries to show.

5 Q. All right. We're almost to the end, so
6 let's unpack the ownership within each unit a bit and then
7 we'll call it a day.

8 What's is WPX's total working interest
9 ownership within COG's proposed 1920-acre unit?

10 A. In Concho's Rock Jelly application or in the
11 1920-acre unit, I believe roughly 75 net acres, that I
12 believe it makes like a 3.9 percent working interest.

13 Q. What is COG's total working interest within the
14 unit after XTO has elected its interest into the unit?

15 A. I believe COG's interest in that unit would stay
16 unchanged even with XTO's election. I believe it stays at
17 roughly 92 percent. I'm not referring specifically, I
18 don't have Concho's exhibit up in front of me, but I
19 believe it stays at 92 percent.

20 Q. And the remaining interest would be XTO's, what
21 is that, uh -- Jiminy.

22 A. 4 percent, I believe.

23 Q. 4 percent?

24 A. We'll get there. We'll get there.

25 Q. Yeah. Go ahead.

1 A. Again I don't have the exhibit up in front of
2 me, but that sounds correct.

3 Q. So let's turn to your Exhibit A-2 which is on
4 page 31.

5 A. I'm there.

6 Q. WPX's proposed 640-acre unit is made up of two
7 vertical 320-acre tracts, correct?

8 A. That's correct.

9 Q. In Tract 1 in the west half of 15 and then Tract
10 2 in the west half of 22.

11 A. Correct. Yes.

12 Q. Which tract contains the overlapping acreage the
13 parties are seeking to pool today in their applications?

14 A. That would be Tract 1, the west half of Section
15 15.

16 Q. And what percent working interest does COG hold
17 in that tract?

18 A. COG holds 100 percent of that working interest.

19 Q. So not only is WPX seeking a development plan
20 that would trap COG's acreage to shorter-than-proposed
21 laterals, but half of its proposed spacing unit is made up
22 of the acreage that COG owns a 100-percent working
23 interest in?

24 A. Yeah. Just kind of to fully unwrap your
25 question, as I stated earlier I consider trapping to be

1 limited to one-mile wells, so in the sense that it would
2 trap COG, no, they would still be able to develop on two
3 miles. But the disputed tract in question, Concho does
4 own 100 percent, which kind of gives consideration to why
5 we were willing to take a non-opt position in the units to
6 avoid the unnecessarily trapping of the west half of
7 Section 22.

8 **Q. And no APDs are filed and you cannot confirm**
9 **WPX's wells will be drilled within a year of that Order;**
10 **is that correct?**

11 A. No APDs have been filed due to the fact that not
12 owning the west half of Section 22. If the application is
13 granted, or WPX's application is granted, they will fall
14 on our 2021 drill schedule roughly in the third quarter.

15 MR. Rodriguez: Thank you. No further
16 questions.

17 THE WITNESS: Thanks.

18 HEARING EXAMINER ORTH: All right, Thank you,
19 Mr. Rodriguez.

20 Mr. Lowe, do you have questions of
21 Mr. Young.

22 MR. LOWE: Yes.

23 CROSS EXAMINATION

24 BY MR. LOWE:

25 **Q. Good morning, Mr. Young. How are you doing?**

1 A. Good morning. I'm good. How are you?

2 Q. I'm doing good.

3 I have just got a quick question, a few
4 simple questions for you.

5 The correspondence with COG, did you do --
6 only correspond with Mr. Hall?

7 A. I believe we started with Travis Macha, who was
8 one of the early landmans. There's been a few different
9 iterations.

10 And then we also spoke with Ashley Roush,
11 who is, I believe, the land lead for Concho in the area.

12 Q. Okay. Did you ever correspond with Mr. Hall on
13 all this, or is that --

14 A. I did. I apologize if that was misleading.
15 Yes, of course corresponded with Mr. Hall and Ms. Roush
16 through email correspondence and telethon.

17 Q. Okay. Is everything, the correspondence was
18 it -- are you pretty confident as, I guess all the way
19 round, everything was, uhm, solid, meaning -- I don't know
20 why there was several other people you corresponded with.
21 Was that position on their side changed up or was it just
22 due to the inquiry that was being asked?

23 A. I think they had a change in landman while I was
24 working on it, and then Ashley, or Ms. Roush is the -- I'm
25 not too much on Concho's organization, but I believe

1 Mr. Hall reports to Ms. Roush and that's why the
2 conversation consisted of both parties.

3 Q. Okay. And I suspect all that you reference is
4 in the exhibits. I think it intends to specifically look
5 at all the correspondence in the email that you submitted.

6 A. The emails that were attached, one does include
7 one to a previous landman, Travis Macha. The majority of
8 it is correspondence with Mr. Hall, and the timeline there
9 is a note about a teleconference that took place between
10 the two parties that I was involved in and Mr. Hall was
11 involved in and Ms. Roush.

12 Q. Okay. Give you that one.

13 Let's see here. Just to resolidify, I
14 think what I heard -- well, we got -- OCD received two
15 exhibits for this case, and I'm not too sure if I'm
16 referencing the correct one. I have yet to decipher which
17 one is the correct one. But if we are -- if it is the one
18 that I need to look at, Exhibit B-3a, if you look take a
19 look at that.

20 A. I've got it here.

21 Q. Okay. I suspect it's the same one I'm looking
22 at, that WPX on the map here that's dated, that's a
23 proposed -- uhm, would it be a proposal for --

24 A. So this Exhibit B-3a, which is Titled Concho
25 Scenario shows proposed units. So that's Concho's Rock

1 Jelly three-mile, 1920 acre unit that's 3, 10 and 15 on
2 the east half of Section 22 extending down into the south.
3 That is representative of a unit that we will entitle The
4 Horn. We've worked -- are working towards voluntary
5 agreement with Tap Rock to extend and create that unit.

6 The Tap Rock unit that is shown on this
7 exhibit to the south of the west half of Section 22,
8 those -- that is a perfected existing horizontal spacing
9 unit. That is Tap Rock's WTG wells that I referred to
10 earlier. There's seven existing Wolfcamp wells.

11 Then on Exhibit B-3a, what's shown on the
12 west half of Section 22 would be the one-mile unit that we
13 would be limited to in Concho's scenario.

14 **Q. Okay. Thank you for that.**

15 **The Tap Rock wells that are indicated on**
16 **this well, are they also on Purple Sage, as well? No?**

17 A. That's correct, they are Purple Sage wells.

18 **Q. Okay.**

19 A. That's kind of the driving factor why we can't
20 go to the south from Section 22, due to Tap Rock's
21 existing wells.

22 MR. LOWE: Okay. Thank you for that. That's
23 all I have. Thank you very much.

24 THE WITNESS: Thank you.

25 HEARING EXAMINER ORTH: All right. Thank you

1 Mr. Lowe.

2 Mr. Savage, do you have any redirect for
3 Mr. Young?

4 MR. SAVAGE: Yes, ma'am, I have a few redirect
5 questions.

6 REDIRECT EXAMINATION

7 BY MR. SAVAGE:

8 Q. Mr. Young, looking at Exhibit A-5 where it shows
9 the substantial number of wells that WPX operates in this
10 area, this is all in the general area. When you step
11 across that border, the Texas border, you described that
12 those lands are similar; is that correct?

13 A. That's correct.

14 Q. And the experience that WPX acquires from
15 operating in this general area, albeit across the border,
16 that's the experience that plays into and feeds into its
17 operations in New Mexico; is that correct?

18 A. That is correct.

19 Q. When you described some of the geological or
20 production aspects of the wells in your land testimony,
21 those were providing context for the understanding of
22 waste and correlative rights and conservation; is that
23 correct?

24 A. Yes, that is also correct.

25 Q. And in each case after you provided that

1 context, you immediately deferred to the geologist or the
2 engineer expert in that area, that witness, expert witness
3 would further elaborate; is that correct?

4 A. Correct.

5 Q. COG pointed, tried to point out that the fact
6 that there's a 2 1/3 mile well in the vicinity is somehow
7 indicative that that two-mile well is not optimal, but
8 this 2 1/3, as you pointed out, is an exception to the
9 rule; is that correct?

10 A. That's correct. As I state, it's primarily due
11 to that irregular section at the tale end of the unit, so
12 to ensure that no stranding occurred it was included in
13 the Horn.

14 Q. Thank you. WPX would be applying for the APD at
15 this time if they were able to; is that correct?

16 A. That's also correct, sir.

17 Q. And the wells are on schedule if they were
18 developed as soon as the APD is obtained?

19 A. Yes. As soon as we're hypothetically granted
20 the application we'd celebrate by firing up the APDs and
21 the wells would fall on our drill schedule.

22 Q. I was hoping, Mr. Young, we could unpack --
23 seems to be like a variety of definitions, concepts of
24 "stranded" circulating around us in this discussion, this
25 proceeding.

1 The first definition of stranded, as you
2 pointed out, is the fact that WPX is trapped within this
3 one-mile confinement because of the operational
4 limitations of (inaudible), and that creates a very
5 undesirable one mile, and that limited capital that WPX
6 has would not be utilized for an undesirable one-mile. Is
7 that correct?

8 A. Yes.

9 Q. Okay. And then the other type of stranded
10 that's referenced in your testimony, as well as in the
11 other witnesses' testimony, geologists and the reservoir,
12 is stranded product in the unit that results from Concho's
13 inefficient production based on their horizontal spacing
14 of the wells. Is that correct?

15 A. Yes, that's correct. As discussed in more
16 detail in our geology and reservoir testimony, we have two
17 targets within the Wolfcamp bay as opposed to Concho's one
18 target that effectively goes from 10 wells, 10 upper -- or
19 excuse me 10 Wolfcamp wells in a section for WPX's
20 spacing, compared to Concho's five Wolfcamp A wells in a
21 section.

22 Q. Thank you, Mr. Young.

23 I want to look at the statutory definition
24 of correlative rights that Mr. Rodriguez brought up. He
25 pointed out it was the opportunity for an interest owner

1 to have their equitable and just share of production
2 without waste, and that tracks the language of the
3 statute, and you, uh, define that very well, So I'm going
4 to ask you about that.

5 Mr. Rodriguez and COG, they seem to think
6 that because -- if WPX went against the economic
7 constraints and developed a one-mile well, that -- that
8 they -- that there's -- that WPX does have this
9 opportunity if they went against economic restraints and
10 developed this well. But isn't there other interest
11 owners in this unit?

12 A. There are. There are the overriding interest
13 owners in Section 22.

14 Q. Okay. And doesn't the understanding of
15 correlative rights include all interest owners, all
16 interest owners have the opportunity to have a just and
17 equitable share of production?

18 A. That's my understanding.

19 Q. And if no operator in their right mind would
20 develop this well, this one-mile unit because there is
21 limited capital, and that that would be expended on
22 economic wells and not be expended on uneconomic wells,
23 would these other interest owners be deprived of that
24 opportunity, or their correlative rights harmed?

25 A. Yes, they would.

1 Q. And is this the reason why the other interest
2 owners in this unit are supporting WPX's development plan
3 and are not supporting COG's development plan?

4 A. Yes, I believe it is.

5 MR. SAVAGE: I have no further questions.

6 HEARING EXAMINER ORTH: All right. Thank you,
7 Mr. Savage.

8 If there is nothing else, can we excuse
9 Mr. Young?

10 Yes? All right.

11 So let's -- I believe we have two more
12 witnesses, Mr. Savage.

13 MR. SAVAGE: That's correct. Two more
14 witnesses.

15 HEARING EXAMINER ORTH: And based on how the
16 first witness has gone, I trust that will take a while.

17 MR. SAVAGE: It might. Wow.

18 HEARING EXAMINER ORTH: Let's take a lunch
19 break. We've been going, with just two very short breaks,
20 since 8:00.

21 Is 50 minutes enough? Can we reconvene at
22 1:00 p.m.?

23 MR. SAVAGE: That's good with me.

24 HEARING EXAMINER ORTH: All right. Let's
25 reconvene at 1:00. Thank you all very much.

1 (Note: In recess from 12:10 p.m. to 1:02 p.m.)

2 HEARING EXAMINER ORTH: I am keeping my eye on
3 the waiting room over here, and in the meantime let's get
4 started.

5 Mr. Savage, I see that your connection is
6 still good. Are you with us?

7 MR. SAVAGE: I am.

8 HEARING EXAMINER ORTH: There you are.

9 MR. SAVAGE: Thank you, Madam Examiner.

10 HEARING EXAMINER ORTH: So we are back after a
11 short lunch break in Matters 21344 and 21371.

12 When we broke Mr. Savage had presented his
13 first witness, Mr. Young. We completed questioning of
14 Mr. Young, and Mr. Savage has two other witnesses both of
15 whom have already been sworn in.

16 Just a few reminders that we definitely
17 improved the ability to see the witness when I was muting
18 the lawyer while the witness spoke, and so, you know, if
19 you can do that, that's great; otherwise, I'll do it for
20 you until your witness finishes a long answer.

21 And then also if you would just please not
22 rattle papers after you've asked the question while the
23 witness is speaking. That made a big difference when
24 lawyers remembered not to do that, or to not do that.

25 Okay. Is there anything else we should

1 talk about before we hear from the other two witnesses

2 MS. MUNDS-DRY: Madam Examiner, I just have a
3 question, call it a point of order, if you will.

4 I just have -- more of desire for
5 efficiency. I notice Mr. Savage did some, uhm, sort of
6 some questioning of his witnesses during direct, and I
7 guess I just -- I know that we submitted prefiled
8 testimony and the exhibits, I think in an effort to be
9 more efficient, and so I guess I just wanted to get some
10 clarity from you and really understand if there's an
11 expectation that we should be doing that, because, as you
12 saw, COG simply submitted it.

13 So I'm just looking for a little insight.
14 I'm not trying to cramp Mr. Savage's style but really just
15 trying to get this done, as soon as we can, too.

16 HEARING EXAMINER ORTH: Yeah. Actually I
17 noticed that, as well, Ms. Munds-Dry. And actually the
18 way you did it is kind of the way we set it up in order
19 for it to be done; that is to say these virtual platform
20 are really quite awkward. As well-intentioned and
21 well-behaved as we all are they remain awkward, so
22 streamlining them by accepting -- you know, having the
23 testimony come in in writing beforehand and then keeping
24 things short while we are together was kind of the point
25 of how we set this up.

1 So perhaps just, you know, a reminder,
2 Mr. Savage, that it's not necessary. Again I don't want
3 to cramp your style either, but it's not necessary to draw
4 out, you know, their full testimony while we're together.

5 MR. SAVAGE: Thank you, Madam Examiner.

6 I'm going to try to weed out this a little
7 bit but there's a few questions on the exhibits I'd like
8 to ask. On the standard exhibits I'll just wheel past
9 those and get something on the record.

10 HEARING EXAMINER ORTH: Thank you for that.

11 So if you would please call your next
12 witness.

13 MR. SAVAGE: Mr. DePriest, are you present?

14 MR. DePRIEST: Yes, I'm present.

15 MR. SAVAGE: Okay. Exhibit B is the testimony
16 of Keegan DePriest, who is present online?

17 Mr. DePriest's qualifications are described
18 on page 69 of Exhibit B. He has not previously testified
19 before the Commission.

20 Mr. DePriest's resume has been provided for
21 the Examiners review, and I tender Mr. DePriest as an
22 expert witness in petroleum geology.

23 HEARING EXAMINER ORTH: Thank you.

24 Ms. Munds-Dry, do you have an objection?

25 MS. MUNDS-DRY: No objection. Thank you.

1 HEARING EXAMINER ORTH: All right. Thank you.

2 He is so recognized. Go ahead, Mr. Savage.

3 MR. SAVAGE: Mr. DePriest, provides in his
4 testimony an overview of how the geology is possible for
5 the development of Sections 15 and 22. He also provides a
6 comparison from a geological perspective of the two plans
7 proposed by WPX and COG, noting the difference between the
8 two and explaining why the WPX plan is preferable.

9 KEEGAN DePRIEST,

10 having been duly sworn, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. SAVAGE:

13 Q. Mr. DePriest, can you state your name for the
14 record.

15 A. Keegan DePriest.

16 Q. Let's move on to the exhibits that are important
17 in here. It looks like Exhibit B-1 and B-2 are pretty
18 standard. Would you agree with that?

19 A. Yes, they are.

20 Q. Okay. So Exhibit B-3 has two exhibits, 3a and
21 3b. They are a comparison. Can you explain that
22 comparison and why the WPX scenario is preferable?

23 A. Yeah. These exhibits represent two scenarios.
24 Exhibit B-3a shows the Concho proposed scenario in which
25 WPX would be confined to a one-mile drilling unit in the

1 west half of Section 22, which undermines the optimal
2 development of the sections involved.

3 Exhibit B-3a shows the WPX proposed
4 scenario which allows for full and optimal development of
5 Sections 15 and 22, in addition to Concho's Sections 3
6 and 10. The WPX scenario allows for more efficient
7 development of the resources in the area as well as
8 protecting the correlative rights in Section 22.

9 Q. And Exhibit 4A and 4B, do those comparisons show
10 in any way a preference for one over another, or are they
11 standard exhibits?

12 A. Standard exhibits.

13 Q. And is the one -- one is an east/west cross
14 section. Previously there was a question whether or not
15 WPX could extend east/west, out of Section 21, for
16 example. Does this speak to that, or, if not, could you
17 speak to that?

18 A. Specifically the geology is the same, east/west,
19 as well.

20 Q. Exhibit 5 also looks like a standard exhibit.

21 A. Yes.

22 Q. Then we get to the last exhibit, 6a and 6b, and
23 this looks like it is a comparison that could inform why
24 one plan is preferable over another. Is that correct?

25 A. That's correct. Exhibit -- these are the Gun

1 Barrels for WPX's French wells and Concho's Rock Jelly
2 wells.

3 The important items to acknowledge here are
4 the number of wells, the spacing, and the design in terms
5 of benches. WPX proposes five Wolfcamp A wells set up in
6 a wine rack order of two uppers and three lowers, spaced
7 about 510 feet apart for the west half of Section 22, and
8 15, while Concho's proposal has five Wolfcamp A wells,
9 spaced roughly 1100 feet apart.

10 **Q. Thank you, Mr. DePriest.**

11 **At this point I ask the examiners to accept**
12 **into the record Exhibit B and all the sub exhibits, B-1**
13 **through B-6a and B-6b, and I present Mr. DePriest as**
14 **available for questioning.**

15 HEARING EXAMINER ORTH: Thank you very much,
16 Mr. Savage.

17 Ms. Munds-Dry, do you have objections to
18 the admission of Exhibit B and its sub exhibits?

19 MR. RODRIGUEZ: Madam Examiner, we do not.

20 HEARING EXAMINER ORTH: Oh, thank you,
21 Mr. Rodriguez. And do you have questions of Mr. DePriest?

22 MR. RODRIGUEZ: Yes, Madam Examiner, I do.

23 CROSS EXAMINATION

24 BY MR. RODRIGUEZ:

25 **Q. All right. Good afternoon, Mr. DePriest.**

1 A. Good afternoon.

2 Q. I promise to keep this one shorter than the land
3 cross, but I don't how much shorter, so we'll see. Just
4 bear with me.

5 First if we could turn to page 71 of your
6 testimony, please.

7 A. Okay.

8 Q. You state that one-mile wells are undesirable
9 due to economics at this commodity price, and then you
10 state two-mile wells are preferred in part for economic
11 reasons. Is that correct?

12 A. That's correct.

13 Q. Are economic statements such as those within
14 your area of expertise as a geologist?

15 A. As a geologist, no, but discussions with our
16 reservoir engineer, pass along to our reservoir engineer.

17 Q. Towards the bottom of your testimony on page 70,
18 you state WPX's -- essentially, to paraphrase, WPX'S
19 scenario would protect correlative rights in this section.

20 Is that fair?

21 A. That's correct.

22 Q. And are statements regarding their ownership and
23 correlative rights within your area of expertise, as well?

24 A. Specifically geology, no.

25 Q. Do you agree that, or do you agree with COG that

1 the Wolfcamp in this area is consistent, that there's no
2 geologic impediments inappropriate to be developed by
3 horizontal wells?

4 A. That's correct.

5 Q. Within both spacing units, COG's proposed
6 spacing unit and WPX's proposed unit?

7 A. That's correct.

8 Q. If we could turn to Exhibit A-5, please.

9 A. Okay. I'm there.

10 Q. Do you -- Is the Wolfcamp geology similar
11 throughout this area that you have in this map?

12 A. Yes.

13 Q. Would you consider the Texas side of the
14 Wolfcamp to equal to the New Mexico side?

15 A. Yeah.

16 Q. If we could turn to Exhibit B-3a and B-3b on
17 pages 79 and 80.

18 A. (Note: Pause.) Okay.

19 Q. B-3a is a locator map depicting COG's
20 development plan and B-3b is WPX's development plan,
21 correct?

22 A. That's correct.

23 Q. The difference being a three-mile to one-mile
24 development versus two two-mile developments?

25 A. That's correct.

1 Q. And if we turn back to your testimony on 70,
2 please.

3 A. Okay.

4 Q. You state that WPX's development plan depicted
5 in Exhibits B-3a and B-3b would -- I'm sorry, strictly in
6 B-3b would achieve optimal development while COG's
7 development plan in Exhibit B-3a would undermine optimal
8 development.

9 When you say optimal development what do
10 you mean by that geologically?

11 A. Maximizing the resource that's in the geologic
12 rocks.

13 Q. So did you identify any structural impediments
14 or faulting anywhere?

15 A. There's none in this area, no.

16 Q. Are there any inconsistencies with the geology?

17 A. No.

18 Q. So what geologic criteria did you use to
19 conclude that two two-mile projects better optimize
20 development of the area over a three- and a one-mile
21 project as proposed by COG?

22 A. In terms of specifically the geology, there's
23 nothing that changes; however, given that three- versus
24 one-mile development of the resource of total production,
25 that would make a difference in total production, which

1 might be important for the reservoir. By reservoir
2 counterpart.

3 Q. So would it be a fair statement that optimal
4 development then is more related to economics than
5 geology?

6 A. Optimal development in terms of the benches that
7 we are planning on producing from.

8 Q. So just to be clear, is optimal performance
9 based on --

10 A. I'm sorry. You broke up.

11 Q. Can you hear me?

12 A. Yes, now I can.

13 Q. Okay. So I wanted to be clear that in this
14 circumstance optimal development is entirely an economic
15 factor versus a geologic facto?

16 A. Optimal --

17 HEARING EXAMINER ORTH: Hold on. I'm sorry.
18 The witness is going to have to repeat his answer. Please
19 go ahead.

20 A. Optimal development in terms of production from
21 the geologic unit, yes.

22 HEARING EXAMINER ORTH: Thank you.

23 Q. If we could turn to Exhibit B-3a and -3b -B
24 again, please.

25 A. Yes. I'm there.

1 Q. How long are the wells in WPX's proposed Horn
2 wells?

3 A. 2.3 miles, roughly.

4 Q. And on page 71 of your testimony you state that
5 two-mile laterals minimize risk and optimize resource
6 development.

7 A. That's correct.

8 Q. So as I asked Mr. Young earlier, I'm going to
9 ask you the same question: Using your reasoning and your
10 testimony, why did you develop longer laterals in this --
11 why did you propose longer laterals than two miles if
12 you're saying that two-mile laterals minimizes risk and
13 optimizes resource development.

14 A. To avoid stranding Section 34 on the east half.

15 Q. Would you agree that that extra lateral after
16 two miles creates more of a risk?

17 A. Yes, it would create more of a risk.

18 Q. But it's outweighed by the fact you're including
19 that acreage. Is that what you're saying?

20 A. Yes. However 2.3 mile laterals is closer to
21 two-mile than a three-mile in terms of risk.

22 Q. So, to generalize, you're willing to increase
23 risk not to strand?

24 A. Yes.

25 Q. The next sentence of your testimony states that

1 one-mile wells are undesirable due to economics of this
2 commodity price and increase surface area (sic).

3 So if I understand correctly, the laterals
4 between 2 and 3 -- I'm sorry, just two miles.

5 So anything outside of that for -- any
6 laterals outside of two miles would create some sort of
7 risk that's less optimal; is that correct?

8 A. Yes.

9 Q. Are you aware of any WPX projects with laterals
10 outside of this two-mile sweet spot?

11 A. Yes.

12 Q. Do you have an idea of how many wells might be
13 up?

14 A. Specifically as to exact number of wells, I do
15 not know at this time.

16 Q. Are you aware of one-mile wells?

17 A. The exact number of one-mile wells, no. I can
18 refer to my engineering counterpart to answer that.

19 Q. Are you aware of any one-mile wells that WPX is
20 operating?

21 A. I'm aware that we operate one-mile wells, yes,
22 but the specific number I can't give you.

23 Q. Okay. And are you aware of any
24 two-and-a-half-mile wells that WPX offers in the
25 Wolfcamp -- I mean operates in the Wolfcamp?

1 A. I couldn't tell you exactly that number, no.

2 Q. But are you aware of any?

3 A. No.

4 Q. Okay. Could we turn to your cross section maps
5 on page 81 and 82, Exhibit B-4a and B-4b.

6 A. Okay. I'm there.

7 Q. Starting with your north-to-south cross section.

8 A. Yeah.

9 Q. How long is that line? How many sections,
10 roughly, does that cover?

11 A. It covers roughly eight sections from north to
12 south specifically.

13 Q. So roughly around eight miles?

14 A. Yeah. It would be longer than eight miles
15 because of the orientation, but specifically north and
16 south, eight miles, yes.

17 Q. Are these wells the most representative of the
18 geology under Sections 3, 10, 15 and 22?

19 A. Yes, for -- for our geologic records, yes.

20 Q. Are there any closer analogs that were
21 available?

22 A. Uhm, that I'm aware, no.

23 Q. Let's turn to your east/west cross section.

24 A. Okay. I'm there.

25 Q. I'm going to ask you the same series of

1 **questions.**

2 **How long is that cross section line?**

3 A. Fourteen sections.

4 **Q. So roughly in miles, how long is that?**

5 A. Fourteen miles.

6 **Q. And are the wells that you chose within this**
7 **14-mile cross section the most representative of the**
8 **geology?**

9 A. Yes, they are representative of the geology.

10 **Q. And you're not aware of any other closer**
11 **analogs?**

12 A. For wells that we like to use for our geologic
13 evaluation, no.

14 **Q. Okay. Thank you.**

15 **Is there any geologic reason for preventing**
16 **WPX from drilling one-mile wells in Section 22?**

17 A. No.

18 **Q. Is there any geologic reason that prevents WPX**
19 **from drilling lay-down wells that extend into the west or**
20 **the east?**

21 A. Geologic reason, no.

22 MR. RODRIGUEZ: Okay. Thank you.

23 That's all the questions I have. Thank
24 you.

25 HEARING EXAMINER ORTH: Thank you,

1 Mr. Rodriguez.

2 Mr. Lowe, do you have questions for
3 Mr. DePriest?

4 EXAMINER LOWE: Yes, just a quick question.

5 CROSS EXAMINATION

6 BY TECHNICAL EXAMINER LOWE:

7 Q. In reference to your proposed well in reference
8 to their maps on B-3b or -3a, on your west half portion pf
9 your proposed well, at the last take point, where do you
10 intend to have it be from the south, the south edge.

11 A. I'm sorry. I'm getting to that exhibit now.

12 Q. I'm sorry.

13 A. Okay. Sorry. Can you repeat the question.

14 Q. In the east half of your proposed well, wells, I
15 should say, of all the three sections what do you intend
16 your last take point to be?

17 A. 330 feet.

18 TECHNICAL EXAMINER LOWE: 330 feet. Is there
19 any reason -- well, okay. That's all I have for now.
20 Thank you.

21 THE WITNESS: Yes.

22 HEARING EXAMINER ORTH: Thank you, Mr. Lowe.

23 Mr. Savage, do you have any follow up?

24 MR. SAVAGE: I have a couple of follow-up
25 questions, Madam Examiner.

1 HEARING EXAMINER ORTH: Okay.

2 REDIRECT EXAMINATION

3 BY MR. SAVAGE:

4 Q. Mr. DePriest, on page 71 in your testimony you
5 discuss the differences in spacing between the COG plan
6 and the WPX plan. Does this -- how does this relate to
7 the geology, and what would be the optimal spacing in
8 terms of the geology?

9 A. In terms of the geology we'd be targeting two
10 different benches with the wells spaced at 510 feet apart.

11 Q. And what's your opinion of the COG spacing, the
12 1100 and --

13 A. It's -- the wells are spaced too tightly and they
14 only target one bench.

15 Q. Give me --

16 A. I'm sorry. Too widely.

17 Q. Say again. Go ahead. Would you repeat that?

18 A. Concho's development spacing would be too wide
19 and only targets one bench.

20 Q. And the geology of this supports that, the
21 geology of these sections?

22 A. That's correct.

23 Q. COG's referencing the 2.3 mile well in the east
24 half. And that is basically an ** exception; is that
25 correct?

1 A. That's correct.

2 Q. And the 2.3 is actually closer to a two-mile
3 well. Correct?

4 A. That's correct.

5 Q. And you would not use that 2.3 in any other
6 scenario except for being butted up against the Texas
7 border.

8 A. That's correct, yes.

9 Q. And the difference between the 2.3, that .3 mile
10 versus a .7-mile extension, is that significant?

11 A. Yes, it could be significant.

12 Q. You push out to the three-mile, you're pushing
13 out an additional .7, that's over twice as much?

14 A. That's correct, yeah.

15 Q. What kind of risks would you foresee in that, or
16 should the reservoir engineer speak to that?

17 A. I would point that to the reservoir engineer.

18 MR. SAVAGE: I have no further questions. Thank
19 you.

20 THE WITNESS: Thanks.

21 HEARING EXAMINER ORTH: Thank you, Mr. Savage
22 and Mr. DePriest.

23 If I didn't say it earlier, the exhibits
24 you offered are admitted in connection with this witness.

25 So if there is no reason not to excuse him,

1 we will excuse him.

2 MR. SAVAGE: So, Madam Examiner, just an
3 inventory. All of Section B has been submitted and all of
4 Exhibits A have been submitted, as well.

5 HEARING EXAMINER ORTH: Yes. They are all
6 admitted.

7 And so far your first two witnesses have
8 been recognized as experts, as well.

9 MR. SAVAGE: Okay.

10 HEARING EXAMINER ORTH: If you would then move
11 to your third witness.

12 MR. SAVAGE: Okay. Before I introduce the
13 testimony of Mr. Justin Stolworthy, the expert reservoir
14 engineer, I would like to point out Exhibit C. This is my
15 Affidavit of Notice. Samples of Notice Letters are
16 provided in Exhibit C-1, the (inaudible) report is
17 provided in Exhibit C-2, and the Publication Notice is
18 provided in Exhibit C-3.

19 All mailings and Notices were made in a
20 timely manner.

21 Exhibit D is the testimony of Mr.
22 Stolworthy, who is present online. Mr. Stolworthy's
23 qualifications are described on page 100 of Exhibit D. He
24 has not previously testified before the Division but he is
25 familiar with the engineering of the reservoir in all

1 cases, and the resume has been provided for the examiners'
2 review.

3 I tender Mr. Stolworthy as an expert
4 witness in engineering and reservoir matters.

5 MS. MUNDS-DRY: No objections, Madam Examiner.

6 MR. SAVAGE: Mr. Stolworthy provides in his
7 testimony the benefits of WPX's proposal and the stark
8 disadvantages of COG's proposal, pointing out that WPX's
9 plan optimizes development of the reservoir while COG's
10 plan results in a substantial waste by leaving in the
11 ground significant amounts of hydrocarbons that would
12 otherwise be developed under WPX's plan. This results in
13 substantial underground waste.

14 Mr. Stolworthy also shows an increased risk
15 associated with drilling three-mile wells under the
16 circumstances, and the resulting waste and harm to
17 correlative rights.

18 And, Mr. Stolworthy, are you present?

19 THE WITNESS: Yes, sir.

20 JUSTIN STOLWORTHY,
21 having been duly sworn, testified as follows:

22 DIRECT EXAMINATION

23 BY MR. SAVAGE:

24 Q. Can you state your name for the record.

25 A. Justin Stolworthy.

1 Q. Mr. Stolworthy, let's move to the exhibits.

2 And if there is any item or thing from your
3 testimony that you would like to highlight for the
4 examiners as we go through the exhibits, please do so.

5 A. Okay. I want to say that I think WPX has
6 provided the best opportunity for both parties, not just
7 WPX, to economically develop the area of interest.

8 We believe that there's two forms of waste
9 presented by Concho's proposal. The first form is
10 obviously stranding the west half of Section 2, and the
11 second piece to that would be their current spacing.

12 So we can get into that discussion later.

13 Their intended well spacing is outside the
14 norm. I provided exhibits from Mewbourne, from XTO, from
15 Concho themselves, that state that, you know, tighter
16 spacing is -- resulted in exceptional results.

17 So I also wanted to say that with my
18 background I feel like Concho is proposing unnecessary
19 risk with three-mile development when we've offered them
20 two-mile development.

21 To my knowledge no one has drilled over
22 13,000 feet horizontally in New Mexico. They're proposing
23 something like 15,000 feet. When you do that you're
24 getting into significant operational risks, such as rig
25 capabilities. You're changing your casing design, you're

1 modifying your completion design and even your artificial
2 lift to accommodate those longer laterals.

3 And so we discussed that internally, we've
4 gone through that exercise, and we've determined that
5 three-mile development is too risky and that we are
6 pushing for 7,500-foot laterals versus 15,000 foot
7 laterals.

8 So this is just something I want to make
9 clear. I mean, if Concho goes out there, they are granted
10 their three-mile development, and they have an 80 percent
11 success rate that equals to one wellbore, you're never
12 probably going to go back and develop those stranded
13 reserves. If you do, you're talking uneconomic, an
14 uneconomic situation.

15 **Q. So in terms of the exhibits, which ones point to**
16 **the best manner of developing this area?**

17 A. So -- those --

18 **Q. For example, you pointed out that there are**
19 **other parties involved in operations and they appear to be**
20 **approaching this development differently, quite a bit**
21 **differently than Concho. Can you speak to that?**

22 A. That is correct. So what Exhibit D-3 is showing
23 it it's just a look at direct offset operators and their
24 current well spacing in Wolfcamp or Upper Wolfcamp
25 development.

1 You can see Tap Rock is kind of one extreme
2 at 300 feet horizontal spacing, and Concho is on the other
3 extreme at almost 1200 feet horizontal spacing. We are
4 somewhere in the middle there.

5 You know, we look over the fence quite a
6 bit when we come up with these proposals. We're looking
7 at Concho. We saw Concho's Littlefield development.
8 Their spacing is half of what they proposed today, and you
9 can see that they're exceeding or meeting our
10 expectations.

11 **Q. In Exhibit D-5 it has quite a bit of information**
12 **on it. It looks like there's some comparison between**
13 **two-mile wells and three-mile wells. Can you go over the**
14 **significance of this exhibit?**

15 A. Yes, sir. So I wanted to do -- in my own
16 research, you know, we are, yes, trying to figure out, you
17 know, how to develop our acreage properly. So we do
18 reconnaissance. Again, we look over the fence. We are
19 looking at operators that are trying these extended-reach
20 laterals. We found two in the Wolfcamp, the Upper
21 Wolfcamp Formation in New Mexico, and so that's the James
22 Ranch Unit D12192H and the 191H. Both landed up in the
23 Upper Wolfcamp.

24 So what we are doing is comparing that
25 production to what a to two-mile well would do in that

1 same area. So I grabbed the offset operators, plotted
2 them against your normal -- or normalized production to
3 two-mile development, audited to see how three-mile
4 development compares.

5 You can see in one case it's doing
6 extremely well, the other case not so much. So why would
7 that second well, uhm, be underperforming? And I think
8 it's -- and I don't have any information, but I suspect
9 that it has something to do with the operation risk.
10 There's something that they won't -- something happened
11 and now they're not able to increase that (inaudible)

12 **Q. And that would be a permanent, possibly**
13 **permanent damage; is that correct?**

14 A. That's correct.

15 **Q. The three-mile well.**

16 **D-7, can you just explain? That seems to**
17 **be very clear and illustrated.**

18 A. So just comparing the west half, which is in
19 question, right, the west half of Section 22, I said:
20 Okay. Let's be fair and let's compare the two proposed --
21 two scenarios, where the first scenario would be we drill
22 two miles and Concho drills two miles. The other scenario
23 would be Concho drills three miles, and then at some point
24 we would drill one-mile wells.

25 This assumes that we would come back in

1 2025. That's a big "if" because we don't know when prices
2 are ever going to -- when prices will recover, and we
3 don't know, you know, what our inventory -- I mean, we've
4 got two-mile development that we are probably going to go
5 after versus one mile, even if prices recover.

6 That is a big if. I just want to throw
7 that in there. But I'm trying to be fair to Concho and
8 I'm giving them the benefit of the doubt that we'd come in
9 in 2025 and develop that one-mile section.

10 And you can see the difference in
11 production over time. You can see the delta between our
12 scenario and their scenario. Effectively they're
13 stranding reserves that they will never be able to come
14 back and get due to their well spacing.

15 **Q. And Mr. Stolworthy --**

16 A. Yes, sir.

17 **Q. COG, their reservoir engineer, they did not**
18 **provide any production data; is that right?**

19 A. I did not see any production data.

20 **Q. You didn't see any production.**

21 So would it be safe to say the examiners
22 would have no idea what the production is based on the
23 information they gave, and would not know what possibly
24 the waste could be based on the data that they gave; is
25 that correct?

1 A. That is correct.

2 Q. Okay. Exhibit D-8, you actually quantify the
3 waste and the loss and ultimate benefit of the two
4 scenarios in Exhibit D-8. Can you explain the
5 significance of this summary?

6 A. D-8? Is that correct?

7 Q. D-8. Correct.

8 A. Essentially if Concho is granted three-mile
9 development that strands us to one-mile development in the
10 west half of Section 22. Given the current price
11 environment, given economics, it is not-- uhm, let me back
12 up there.

13 So given that one-mile development is
14 uneconomic due to the nature of one-mile, one-mile wells
15 in our uncertain price environment. So what I'm saying is
16 right now that we will not chase after one-mile
17 development because it does not meet our internal
18 threshold economically speaking. We have other
19 projects/opportunities on our drill schedules that we're
20 going to chase.

21 It has been passed down through management
22 that our one-mile development is uneconomic and does not
23 meet the economic threshold therefore we are stranding
24 those reserves.

25 Sorry, that was a bit confusing and jumbled

1 but I hope I got the point across.

2 Q. It's not only the 2.5 million but then you also
3 have the -- 2.5 million barrels, you also have the
4 cumulative one million or....

5 A. So again that goes back to the Cum. time clock
6 in Exhibit D-7. We're just -- if we were comparing the
7 two scenarios, I've made a lot of assumptions, I was being
8 very fair to Concho, their pie curves. And it is
9 estimated we would strand over a million barrels of oil if
10 Concho is granted the three-mile development, just based
11 off their current spacing strategies.

12 And those reserves -- I mean, once you go
13 in there and you drill these wells, you start producing
14 them, you introduce parent/child effects. Right? So what
15 that does is that impact of future wells. Not only the
16 current wells but on future wells.

17 So you're going to go in there, you're
18 gonna spend, you know, millions of dollars trying to
19 develop this acreage, and you're in a depleted zone.

20 So it's something that we take seriously,
21 and that's why we propose co-development. You know, five
22 wells per half section, wine rack, so we're maximizing our
23 drainage area, given the oil-in-place calculations that we
24 have.

25 Q. And economically that translates into numbers

1 **that everyone wants. Is that fair to say?**

2 A. Yes, sir. It's fair, yes.

3 MR. SAVAGE: I have no further questions. I ask
4 that the examiners accept into the record Exhibit C and
5 all its sub exhibits, C-1 through C-3, and Exhibit D and
6 its sub exhibits D-1 through D-8, and Mr. Stolworthy is
7 available for questioning.

8 HEARING EXAMINER ORTH: All right. Thank you,
9 Mr. Savage.

10 Ms. Munds-Dry, do you object to the
11 admission of these Exhibits, C and its sub exhibits, and
12 Exhibit D with its sub exhibits?

13 MS. MUNDS-DRY: No, Madam Examiner.

14 HEARING EXAMINER ORTH: Thank you. Exhibits C
15 and D with all sub exhibits are admitted.

16 Do you have questions of Mr. Stolworthy?

17 MS. MUNDS-DRY: I do. Thank you, Madam Hearing
18 Examiner.

19 CROSS EXAMINATION

20 BY MS. MUNDS-DRY:

21 **Q. Good afternoon, Mr. Stolworthy.**

22 A. Good afternoon.

23 **Q. If you would please turn to your first exhibit,**
24 **which is page 109, and it's marked as Exhibit D-1.**

25 A. Yes, ma'am.

1 Q. Are you there?

2 A. Yes, ma'am.

3 Q. Thank you. Sorry, I can't -- it's awkward in
4 this environment since I can't see you moving pages.

5 A. I've got it up on my screen. I'm in my office,
6 so...

7 Q. Good. I want to visit again about this stranded
8 concept.

9 Is there a technical reason from your
10 engineering expertise why WPX cannot drill one-mile wells?

11 A. We are very capable of drilling one-mile wells.

12 Q. Could WPX drill lay-down wells on either the
13 east or the west in Section 21 or 23?

14 A. We could, but it would not be preferred. Based
15 on the frac geometry you're not getting an efficient frac
16 so you're essentially stranding those wells.

17 That's why 100 percent of operators in this
18 area are stand-up versus lay-down wells.

19 Q. Understood. But there are other options from a
20 technical perspective. There's nothing technically
21 keeping you from drilling either a one-mile well or
22 lay-down wells.

23 A. Technically speaking. Uhm, again if you
24 disregard frac geometry, no. If you include frac geometry
25 you are not effectively draining the reserves properly and

1 you're creating waste.

2 **Q. But that's a decision that WPX can make.**

3 A. Well, we are looking out for other parties, as
4 well.

5 **Q. Are you referring to the overriding interest**
6 **owners in Section 22?**

7 A. Yes, ma'am.

8 **Q. Now, overriding interest owners, they don't**
9 **participate in the cost, right?**

10 A. No, ma'am, they do not.

11 **Q. Let's turn to Exhibit D-2.**

12 A. Okay.

13 **Q. Again, kind of building on the same conversation**
14 **we were just having, is WPX being forced to drill these**
15 **wells in Section 22 as one-mile wells?**

16 A. If Concho is granted their Rock Jelly proposals,
17 yes, we would be force (inaudible).

18 **Q. I guess I didn't ask that very well. Let me try**
19 **that again, Mr. Stolworthy. I guess I was asking is: Do**
20 **you have to put them on your rig schedule right now?**

21 A. We would prefer to put those on the rig schedule
22 based on the fact that the Horn issue is also being
23 developed, so we want to co-develop the French and the
24 Horn to prevent the parent/child issue.

25 **Q. So if Concho's application was granted and WPX**

1 determined that it should drill one-mile wells, stand-up
2 wells in Section 22, you would drill those along with the
3 Horn wells in the east half?

4 A. That's correct.

5 Q. You would drill those even though you are also
6 stating that it's not economically viable to do so right
7 now?

8 A. So I guess I was thinking you're talking about
9 two-mile development in the west half of Sections 22 and
10 15.

11 Q. Oh, okay. Let me be clear. I was saying if
12 Concho's application was granted and WPX's application was
13 denied, would you drill those one-mile wells in Section
14 22?

15 A. We would not. They do not pass internal
16 pressures, economic pressure.

17 Q. Is this your answer meaning right now in the
18 current economic environment?

19 A. For the foreseeable future, we are just not
20 bullish on oil price, and so yeah. We don't know when
21 that's going to happen.

22 And then, to that point, I mean we've got
23 two-mile development where we will probably tackle first.

24 Q. Wait. Would you, though, consider it inventory
25 for the future? In other words, Section 22 could be

1 deferred to a later time?

2 A. At this price environment, no.

3 Q. So there's no point in the future that WPX may
4 consider drilling one-mile wells in Section 22?

5 A. Again I can't see into the future and what
6 commodity prices are going to do, so I can't answer that.

7 Q. I'll ask you the same question, Mr. Stolworthy
8 that Mr. Rodriguez asked Mr. Young earlier: Would WPX
9 consider farming that out to an operator who does find
10 one-mile wells economic?

11 A. I can't answer that. I would refer to
12 management.

13 Q. Thank you for that, because that's a nice segue.
14 In your conversation with Mr. Savage
15 earlier, you were saying how you prioritize your projects.
16 Correct?

17 A. Yes, ma'am.

18 Q. And I assume, much like Concho it's part of your
19 job to help provide the economic data to help management
20 come up with a priority list, right, of what to drill
21 first.

22 A. Yes, ma'am.

23 Q. And that's because you have only so much capital
24 budget, right, you have to determine how to spread that
25 around. Is that a fair way to say that?

1 A. Yes, ma'am.

2 Q. So then isn't it fair to say that that is a
3 management decision how to prioritize two-mile, one-mile,
4 three-mile wells?

5 A. It is based on our technical work, yes, ma'am.

6 Q. So if WPX management is prioritizing how they
7 drill, how they choose to drill their wells and what
8 projects, why is it Concho's fault that we are stranding
9 Section 22?

10 A. It's the situation, current situation we find
11 ourselves in. There are other opportunities. There are
12 other options for Concho to develop this acreage properly.
13 We are, again, looking out for the correlative rights of
14 the acreage, knowing that one-mile development will not be
15 developed due to the uncertainty in the price environment
16 and the economics, socioeconomics.

17 Q. And because we've been talking a lot about these
18 terms, correlative rights, stranding, are you sort of
19 equating correlative rights and stranding in the same way,
20 or am I not characterizing it correctly?

21 A. You know, I'm just saying that, you know, give
22 everybody the right, the opportunity to produce this
23 acreage without waste. You know, we want to -- we know
24 this is good rock. We want to go out there and develop
25 this rock, but we are not allowed to develop it with a

1 one-mile issue.

2 Q. Would you agree that your correlative rights are
3 still there, the reserves are still, they just may be
4 developed at a later point in time?

5 A. Well, again I can't see into the future. If,
6 you know, we stay at a \$40 environment, then no, I don't
7 believe we will develop these -- the west half of
8 Section 22 if we are stranded between Concho and Tap Rock.

9 Q. It's hard to know. Is that fair?

10 A. It's very hard, yes, ma'am.

11 Q. Okay. If we could turn to your next exhibit,
12 D-3, please.

13 A. I would just like to say that it is known that
14 if we were granted two-mile development we would develop
15 this next year.

16 Q. Thank you. If you would please turn to Exhibit
17 D-3.

18 A. Yes, ma'am.

19 Q. As you were discussing with Mr. Savage and also
20 as you discussed in your direct testimony, this compares
21 offset operator spacing to what's been proposed by Concho
22 and WPX; is that correct?

23 A. Yes, ma'am.

24 Q. What factors go into deciding what is considered
25 optimal spacing in a project area?

1 A. So I think, you know, first thing is we look
2 at -- oh, what are...

3 We have parent wells, so sometimes if we
4 have, you know, an obligation and we don't have the
5 capital, we'll go in there and drill the well. Right?

6 Secondly, we look at -- we go through this
7 whole subsurface process where we get Geology, we get
8 Reservoir, we get Production Drilling, Completions all in
9 the same room, and we calculate the oil in place, we look
10 at the effective drainage area, and we ask Drilling and
11 Completions if this is possible. Right?

12 And everything is possible at a price,
13 right?

14 So I mean it's an internal discussion.

15 We look over the fence. We look at what
16 Concho is doing, we look at EOG, we look at Mewbourne, who
17 happens to be a very good non-op partner for us, and we
18 take all that into consideration and we come up with our
19 best strategy to develop.

20 **Q. You mentioned price is always a -- I don't know**
21 **if -- I don't want to put words in your mouth but it could**
22 **be a limiting factor. Is that a fair statement?**

23 A. Absolutely.

24 **Q. So well spacing or density, depending on how you**
25 **like to define it, that could be challenged by the current**

1 **economics?**

2 A. That's correct. Absolutely.

3 **Q. And --**

4 A. But --

5 **Q. Sorry.**

6 A. Yeah, we go through the exercise, we look at --
7 you know, again we spend a lot of money on science. We
8 look at things: We look at frac heights, we look at frac
9 lengths, so on and so forth. And, again, there's a fine
10 line between creating value and destroying it. When your
11 spacing gets too loose or your spacing gets too tight, you
12 are destroying value. So again that's the game we play,
13 right, given the resource in the ground.

14 And you start off with, you know, a good
15 set of maps, a good oil-in-place calculation you feel
16 confident in, and then you start estimating recovery. And
17 that's how you get into the spacing.

18 **Q. So what I'm hearing you saying is, is there's a**
19 **lot of competing thoughts or concepts that you have to try**
20 **to find -- this is my nonreservoir engineer -- what I call**
21 **the sweet spot. Right? You're trying to find the right**
22 **spacing with the economics where you're spacing in a way**
23 **that it's not too much but not too little. Sort of the**
24 **Goldilocks effect, right?**

25 A. Creating value, not destroying it.

1 Q. I appreciate you humoring this lawyer with my
2 way I try to understand it.

3 But you also mentioned frac heights and
4 frac lengths. That's sort of also trying to determine
5 interference between wells; is that right? That's part of
6 this exercise?

7 A. Yes, ma'am.

8 Q. What do you know about frac lengths in this
9 area?

10 A. What do I know about the frac lengths in this
11 area? Well, again we are part of some different groups,
12 different -- we pay money into. We have microseismic, we
13 have all sorts of data that suggest frac heights and frac
14 lengths. We also do history matching and modeling,
15 internally as well as externally, to help us understand
16 the drainage area.

17 Q. What do you think the frac lengths are in this
18 area in the Wolfcamp?

19 A. Well, yeah, it depends, right? Depends on your
20 core pressure, your rates, the gel, your spacing, your
21 clusters, perfs, design. I mean, there's -- it depends.
22 It's a recipe, right? It's a recipe. And I feel like we
23 have the best recipe, and we have shown and proven that in
24 this area. This is our back yard.

25 Q. And so are you saying -- then is your answer

1 that you're seeing various frac lengths, depending on all
2 of those factors you just stated, pressure and gel and
3 all? The way you complete it, does it depend?

4 A. Yes, ma'am. Absolutely. But again it boils
5 down to recovery factor: Recover the most amount of
6 resource based on price, right, given the price
7 environment.

8 I don't know if that's clear or not.

9 Q. Yeah. I think actually would you agree that
10 both Concho and WPX, uhm, disagree but we both see it the
11 same and we are trying to recover as much as possible
12 considering economics. It's a two-part test, I guess. Is
13 that fair?

14 A. Absolutely.

15 Q. Does it sometimes take testing the spacing to
16 determine what's optimal?

17 A. Yes. I mean, the good thing is, I mean, we are
18 non-op partners with a lot of these operators in here, and
19 they do the testing for us. We pay for it, they operate,
20 we get the data. So, yeah -- so absolutely.

21 Q. If we could look at this production graph on the
22 right there?

23 A. Yes, ma'am.

24 Q. I notice on the left-hand side you list --
25 there's a number of wells that you have included just sort

1 of a range of spacing. Correct?

2 A. You're talking Exhibit D-3?

3 Q. Yes. Sorry. On Exhibit D-3.

4 A. Yes, ma'am.

5 Q. And then on the right-upper-hand corner there's
6 a production graph. I notice you didn't, or at least I
7 don't think you did, or maybe it's my poor eyesight, you
8 didn't include Tap Rocks's production.

9 Did you include that or am I missing it?

10 A. Those wells are so new that we don't have that
11 production. I think they just maybe completed those
12 wells. So, again, we don't have the information
13 internally.

14 But I would say that XTO is very similar to
15 Tap Rock, so you might be able to look at XTO and expect
16 that maybe Tap Rock's performance would be in line with
17 XTO's.

18 Q. Now, did you -- and again this just could be my
19 poor eyesight, but I can only see two gold sticks for the
20 XTO wells. Did you include all their production or am I
21 missing it?

22 A. I think there are only two wells. I -- I need
23 to confirm that, but I believe -- unless it's tracking
24 along with the other pack. Or it could be that we just
25 don't have that. This is all public information, so I

1 just don't know. I grabbed everything that we had. I'm
2 not trying to exclude. If you guys have something
3 different, I'd love to see it.

4 Q. Thank you. I mostly was just trying to make
5 sure my eyes weren't missing it, because I was trying to
6 counts the sticks on the left-hand side and trying to
7 track those to the right-hand side there.

8 It looks like the XTO wells that you're
9 showing here with the tighter spacing, they're not
10 performing too well. Would you agree?

11 A. I would agree. Absolutely.

12 Q. You know, we've talked a lot about spacing, and
13 now we are kind of focused more on the production or maybe
14 how it relates.

15 Could there be other reasons for
16 differences in production other than spacing?

17 A. Operational risk and -- absolutely. If you get
18 surface constraints. I, mean there's all kinds of things.

19 Q. Could it -- yeah, could it be different
20 completions?

21 A. Yes, ma'am.

22 Q. Okay. How --

23 A. Like I say, it's a recipe. All of the above.

24 Q. I've also started to learn a little bit more.
25 It could also depend on whether wells are co-developed or

1 **batch drilled versus single drilled and completed. Is**
2 **that fair to say that's another factor that can affect**
3 **production?**

4 A. Yeah. We call it the parent/child effect.

5 Q. The parent/child effect?

6 A. Yes, ma'am.

7 Q. If I'm looking there, WPX then, uhm -- and there
8 it sort of looks like you might land, and it could it be
9 that WPX is too tight when you're looking at compared to
10 Concho and XTO spacing?

11 A. Again it's -- we feel like we have the right
12 recipe: spacing, completion, design. Uh, wine racking,
13 meaning there's vertical offset.

14 So I feel like we are maximizing the
15 recovery given the issue with spacing.

16 And again it's at a current price
17 environment, so it is economic to do so. Again, this is
18 our back yard. We are very confident in these numbers.

19 Q. And you say, you know, it's a recipe of
20 different things that can contribute to production, but I
21 mean how do you know that Concho's spacing is incorrect.

22 A. So Concho's spacing, I would say, is very loose.
23 I think you're going to see variable good well performance
24 but you're going to leave a lot of reserves in the ground
25 based on that.

1 So I was very gracious, I guess, when I was
2 looking and comparing production. I did not -- I gave it
3 a one-to-one factor based on their spacing.

4 But, yeah, if you're too tight you have to
5 consider there's leaching effects and you're
6 communicating, so you're not getting a one-to-one. I
7 actually gave you guys the benefit of the doubt based off
8 of your spacing that you guys would have current type
9 results.

10 So my problem is if you look at the
11 oil-in-place calculations, you're leaving a lot of
12 resources in the ground.

13 **Q. Besides spacing are there other things in that**
14 **recipe? I'm just asking that because I like that wording**
15 **that you used there, but are there other things that XTO**
16 **is doing differently than Concho?**

17 A. I don't have their completion design. And you
18 have to understand it's ever-evolving, so, uhm, you know,
19 if you -- if you -- you know, if you have loose spacing
20 you probably want a better completion design; i.e. more
21 money. It costs money for bigger completion design,
22 (inaudible), horsepower, so on and so forth.

23 So there is that limitation, as well.
24 Like, if you get wide spacing you're going to have to
25 spend a lot of money to effectively stimulate that

1 reservoir.

2 **Q. Doesn't it also cost more to drill more wells?**

3 A. It depends. When you go from one-mile to
4 two-mile wells, absolutely. That's the advantage of
5 two-mile development.

6 When you go from two-mile to three-mile
7 your operational risks increase exponentially, right,
8 because our drilling rigs, our casing design, our
9 completion design, they are all based around two-mile
10 development. When you start pushing the boundaries you
11 start introducing risks. You know, five years ago we were
12 all one-mile development. Now the rig capabilities, our
13 directional companies, our bit suppliers, they've all kind
14 of upped their game and now we can produce two-mile wells
15 economically. Right?

16 So yes, three-mile development is in the
17 works, right, people are trying it every day, but the
18 capabilities are just not there. You get into -- like,
19 your proposal was like almost \$14 million to drill a
20 three-mile well, right, where we can drill a two-mile well
21 half that.

22 So that's our problem is you -- when you
23 start pushing the boundaries it gets very expensive.

24 **Q. But you agree that it does appear that at least**
25 **some operators in this industry are moving towards**

1 **three-mile laterals?**

2 A. Absolutely. But the vendors, the rig companies,
3 the people that support this industry, they don't have the
4 capabilities. They're working on it. Again, five years
5 ago we had 5,000-pound; circulators, now we have
6 7500-pound circulators. For three-mile development you're
7 going to need 10,000-pound circulators. They're just not
8 out there right now.

9 **Q. Do you disagree that operational efficiencies**
10 **are gained through longer laterals?**

11 A. There's a point. Right? There's a breakover
12 point. When you get too long, you're pushing the
13 boundaries, you start eroding your -- how did you guys put
14 it? There's value erosion. I forget the term.

15 But yes, there's a point where given the
16 current technology that we have available to us there is a
17 point where it becomes inefficient to drill longer
18 laterals. And the sweet spot right now is anywhere from
19 8,000 to about 12,000 feet horizontal, depending on your
20 verticals.

21 **Q. So let me make sure I understand that.**

22 You're saying it becomes -- you don't gain
23 **any efficiencies after a certain amount of lateral?**

24 A. Absolutely. You're talking operationally?

25 **Q. Operationally.**

1 A. Yes, absolutely. We have these -- like, you
2 asked about three-mile development. We have these same
3 discussions internally. These are the debates that we
4 have. We are just not there yet.

5 **Q. Are you aware of Concho's wells that it's**
6 **drilled in Texas, the three-mile wells it's drilled in**
7 **Texas?**

8 A. Is that Midland?

9 **Q. In the Midland Basin.**

10 A. So we're comparing apples to oranges. I mean,
11 we're New Mexico, Delaware Basin, you're talking Concho,
12 Midland Basin, and the rock is completely different. It's
13 like -- I use the analogy for my wife. You know, it's
14 like I can eat two jalapenos but I don't know if I
15 could -- or I could eat three jalapenos but I can't eat
16 three ghost peppers. It's just they're different. Just
17 different. I don't know how to use the analogy other than
18 the rocks are different.

19 **Q. I understand. So let's go a little closer to**
20 **home. Are you familiar with XTO's Poker Lake Unit to the**
21 **east about six miles from you where they're drilling**
22 **three-mile wells?**

23 A. Yes, ma'am.

24 **Q. Have you looked at those?**

25 A. Again, those are -- I am not privy to all the

1 information, but I do know about them.

2 Q. Were you present for the testimony today that
3 XTO is participating in our three-mile proposed plan?

4 A. Yes, ma'am.

5 Q. Let's visit about risk a little bit.

6 I understand you're a reservoir engineer,
7 so I'm assuming, and correct me if I'm wrong -- I don't
8 know, I don't remember from your resume -- you are not a
9 drilling or a completions engineer.

10 A. Absolutely I am. I started off with EA
11 Services, which is a frac company.

12 Q. Oh, great.

13 A. I spent some time in the service industry, got
14 into production. Then I spent years and years in drilling
15 as an engineer and a team lead, went into production, was
16 a production manager, and then we divested the San Juan
17 Basin. Now I'm in Reservoir.

18 I've seen a lot, yes.

19 Q. That's great. That will allow for more
20 productive conversations. So I'm glad to hear about your
21 experience.

22 You said there were operational risks, so
23 let's talk about drilling risks first, if we could, based
24 on your experience.

25 So you said, you know, in your company you

1 go through that exercise where you determine the risks.

2 And how -- at WPX how do you evaluate those risks? And
3 let's just limit it to drilling risks, if we could.

4 A. Yeah. So drilling risks, again we ask the
5 drilling engineers, "Hey, what is your chance of success,"
6 given the acreage, and so on and so forth.

7 They say, "Okay. It's 80 percent."

8 Well, if it's five well bores you lop off
9 one. Right? And then you run the economics.

10 Four well bores, but you have the cost of
11 four well bores plus the sunken cost of drilling. Right?

12 That gives you a rate of return, that gives
13 you a TC ** (inaudible), right?

14 And so at that point you have to figure out
15 how to overcome the fact that you feel like you're 80
16 percent, you have an 80 percent success rate, right? So
17 that means those wells have to perform that much better in
18 order to overcome the risk of drilling three wells.

19 Q. And let me be a little bit more specific.

20 So I understand your economic evaluation
21 you make there, but when we are specifically looking at
22 the drilling risk, what kind of things are you looking at?
23 You're looking at the risk in the trip out, right? That's
24 one thing you look at?

25 A. You look at the circulating system, right, and

1 the pressures. So again I mentioned five years ago we
2 were 5,000 pounds circulating system. When we are
3 drilling two-mile wells we are running up on pressure
4 which turns the motor which drills the well. Right? So
5 everything slows down considerably. Right?

6 So now the rig companies, they increased
7 their circulating pressure to 7500 pounds, so now we're
8 able to efficiently drill two-mile wells, right, without
9 having to sacrifice motor performance, so on and so forth.

10 So now that we are pushing the boundary and
11 trying to go to three-mile laterals with 7500 pound
12 circulating systems, you start -- again you're slowing
13 things down, your motors aren't as efficient because you
14 have to slow your pump rates down, your gallons per
15 minute, so on and so forth, and so then it becomes, well,
16 this last -- I drilled the first two laterals in five --
17 or first two miles in five days. It's going to take me 10
18 days to drill that extra third mile, because I had to slow
19 everything down, I'm bumping up against my circulating
20 pressures, my pop-offs, so and so forth, and therefore
21 everything becomes slow. And then, as you know, time is
22 money and burn (phonetic) rates are \$50,000 a day, so you
23 lock that on.

24 So that's just drilling the well. Once you
25 hit TD, now you've got to get casing, not to mention you

1 had to upsize everything on your casing. So your casing
2 capacity changes. Now your floating casing the bottom or
3 you're rotating casing the bottom, which is risk. And if
4 you don't get that casing bottom you've effectively lost
5 that part of the lateral, you cannot stimulate that part
6 of the lateral. So again you've created waste.

7 Uhm, breaking down formation. I mean
8 there's a whole list of things I could get into, but does
9 that answer your question?

10 Q. It does. And it appears that XTO in the Poker
11 Lake unit has figured it out, right?

12 A. Do you know how far away the Poker unit is and
13 what the TDs, the vertical depths over there, because
14 again I don't want to compare apples to oranges.

15 Q. Yeah, fair question. I know it's six miles east
16 of here, but I don't know the TD, so I can't tell you.

17 Then you look at completion risks, right?
18 Let's say you successfully drill a well then you look at
19 completion risks.

20 A. Absolutely.

21 Q. Now, at WPX do you conduct modeling with analog
22 wells to try to determine whether you could reach the
23 limits of, say, like you were saying, surface pump
24 pressure or casing or -- or even switching over to
25 completions, you know determining pipe friction, that sort

1 **of thing. Do you use modeling like that to determine?**

2 A. Yeah. Thanks for question.

3 So if you get -- again it's all about
4 pressure, right? So as you get these extended laterals
5 you have to increase casings in order to achieve your
6 design rates, right?

7 That last -- or the first part of the
8 lateral that you're completing is the toe section, right?
9 So you have to sacrifice completion design and rates and
10 whatnot, so you're not getting a true, efficient frac for
11 that first, I would say, you know, 4- or 5,000 feet,
12 right? You're sacrificing, because again you're pushing
13 the boundaries on the completion end. You're slowing down
14 your rates, you're bumping up against pressures, therefore
15 stimulation suffers.

16 **Q. So one thing that you could use if you want to**
17 **determine whether you're getting proper stimulation**
18 **through the whole lateral is you could put tracers into**
19 **the well, right, to make sure you're actually getting**
20 **close to the toe, right?**

21 A. That's one way. Absolutely.

22 **Q. There could be other ways.**

23 A. To answer your question, we have a completions
24 engineering advisor with 25-plus years experience, and so
25 we go through these (inaudible), because, you know we want

1 to go three miles, and if we can do it efficiently and
2 effectively, we want to go three miles. Right here, right
3 now is not the time.

4 Q. But you -- as we were discussing earlier, it is
5 an evolution, isn't it? Don't you think we were having
6 this conversation when we first started drilling two-mile
7 laterals?

8 A. Yes, ma'am.

9 Q. We were crazy to go the extra mile.

10 A. And we lost a lot of laterals, too.

11 Q. Sure. I mean, it is a learning process, right?

12 A. We lost a lot of laterals and ruined a lot of
13 wells.

14 MS. MUNDS-DRY: Madam Hearing Examiner, I have a
15 few more questions but I think it's appropriate at this
16 time -- I would like to ask that Cases 21219 and 21220,
17 that the examiners take administrative notice. I'm not
18 asking them to be made part of the record, but just that
19 you take administrative notice of them.

20 HEARING EXAMINER ORTH: Thank you for the
21 request, Ms. Munds-Dry. I actually have already had a
22 private communication from a technical examiner stating
23 that they wanted to do that. So thank you.

24 MS. MUNDS-DRY: And we were, again, hoping to be
25 efficient and not bring, as we did in that case, the

1 drilling engineer and completion engineer, since they did
2 give extensive testimony to address those kinds of risk.

3 I am happy to share that case and that
4 information with Mr. Savage, but again we just didn't want
5 to belabor the point if it would be a simple matter of
6 taking administrative notice of that previous case.

7 HEARING EXAMINER ORTH: Exactly. And of course
8 all of the documents, exhibits, transcripts, et cetera, in
9 21219 and 21220, which remains pending before the
10 Director, are on the OCD Imaging Web page. So it can all
11 be found there.

12 MS. MUNDS-DRY: Thank you, Madam Examiner.

13 **Q. Mr. Stolworthy, let's go back to your exhibits.**

14 A. Yes, ma'am.

15 **Q. Let's go to Exhibit D-4, if you would, please.**

16 A. Yes, ma'am.

17 **Q. This is the same map that Mr. Young used, a**
18 **different version of it. Correct?**

19 A. Yes, ma'am.

20 **Q. And it looks like WPX has drilled longer than**
21 **two miles in New Mexico. Am I seeing that correctly on**
22 **that map?**

23 A. Yes. So again, like when we say two-mile
24 development we use that term very loosely. I mean, we
25 have to bend these wells somehow, some way, so a two-mile

1 well is anything -- I would say anything greater than 8500
2 feet in lateral length, and anything less than probably
3 11,000 feet.

4 So we -- I don't see any on this map that
5 are extended laterals. If you could point them out,
6 please do so.

7 **Q. I thought I saw some down there in Texas, but**
8 **again the sticks are kind of hard to see.**

9 A. Yeah. I think the majority of them are one
10 mile. We do have -- since we have taken over, I mean we
11 bought this acreage from RDI, and again that was five
12 years ago and one-mile development was the thing. Since
13 we've taken it over we've upgraded our capabilities and we
14 are on two-mile.

15 **Q. Did you create the area of this map or did**
16 **someone else?**

17 A. Aaron Young actually created this map.

18 **Q. Were you are you aware of how this area --**
19 **you-all talked about how you work as team. Did you decide**
20 **on this area?**

21 A. Yes, we did. It's -- you know, we're looking at
22 again our kind of core area and we're kind of extending it
23 to the west and to the north.

24 **Q. And the map looks like --**

25 A. We are trying to make a fair representation of

1 the area. I mean, you wouldn't want to include the
2 Midland Basin in this.

3 Q. It looks like the map cuts off about halfway
4 through the -- if you look at the very bottom of New
5 Mexico, halfway through Township 25 South. That's right?

6 A. Yes, ma'am.

7 Q. Are you aware of Concho's wells that are just a
8 little bit more west of there in Township 26? There's
9 about nine wells are way south and (inaudible) projects?

10 A. I am not.

11 Q. Okay. Let's go to Exhibit D-5.

12 A. Yes, ma'am.

13 Q. If I look down here at the bottom where you show
14 the performance to the right there, if I understand it
15 looks like there's two XTO wells that are three-mile wells
16 that are reflected in red on the production graph. Is
17 that correct?

18 A. Yeah. And just for the record, those wells are
19 actually like 12,700 feet lateral length, so they are not
20 true three-mile. I don't think New Mexico has a true
21 three-mile well ever drilled.

22 Q. If I am comparing the performance of the XTO
23 well on the top to what I will call two-mile wells just so
24 I don't have to go into the long speech, would you agree
25 with me that that XTO well looks like it's the best

1 performer?

2 A. Yeah. And I would also say they have a 50
3 percent success rate there, because you've got one that's
4 doing extremely well and then you've got one it's not.

5 Q. But the potential is there, right?

6 A. The risk -- I'm sorry.

7 Q. I'm sorry. I interrupted you. Go ahead.

8 A. I'm just saying, I mean I think, you know,
9 that's kind of speaking to the operational risk.

10 Q. But the potential is there, would you agree?

11 A. The potential is absolutely there, and I think
12 that's why everybody is for three-mile development.

13 Q. Let's go to Exhibit D-6. If you would help me
14 walk through what assumptions you use in order build your
15 EURs.

16 A. Oh, yeah. So again I was very lenient, very
17 gracious to Concho/COG on their three-mile development
18 based off their spacing, conservative spacing, so
19 essentially I gave them one for one for every mile, so,
20 uhm, essentially just setting everything equal -- even
21 though we know that potentially they are not one for
22 one -- and I ran that as such.

23 So EURs, again if you have a one-mile at
24 500,000 barrels, you got a two-mile at a million, and then
25 the three-mile at 1.5 million barrels. So, again, one for

1 one for every mile.

2 Q. Okay. But this doesn't include an economic
3 evaluation at today's prices and that sort of thing,
4 right?

5 A. Yeah. So running your TI curve, or running that
6 TI curve and your economics are less than our two-mile
7 economics, speaking well for well, just based on the fact
8 that we can drill a two-mile well almost half the price as
9 your three-mile.

10 Q. Do you include degradation from 6-well to
11 10-well spacing?

12 A. Again I was very conservative. I did not.

13 Q. Okay. Let's go to D-7.

14 A. Okay.

15 Q. Again If you could talk to me about the
16 assumptions you used to build your --

17 A. Thank you. So again two-mile development,
18 two-mile development, I said everything equal there. I
19 even gave you the benefit on -- I guess cost doesn't
20 really play into this, but this is a cum. time plot.

21 So I'm looking at two-mile development. So
22 WPX two-mile development in Section -- this is the west
23 half of Section 15 and 22, and then Concho's development
24 in Section 3 and 10.

25 So I built that scenario and I ran it

1 through Aries, and I was able to come up with our cum.
2 time log.

3 So I did the same exercise with the
4 three-mile plus one-mile development. I said: Okay,
5 Concho, your spacing is really conservative. Your -- I'll
6 give you; 1.5 million barrel TI curve, I'll run it. And
7 again this is just the west half. So three wells,
8 Concho's three three-mile wells, and then WPXs five
9 one-mile wells. Assuming -- this assumes we were going to
10 develop this in 2025.

11 **Q. And that's when you said you were, for the sake**
12 **of the argument, going to bring -- in 2025 you would bring**
13 **on the one-mile wells.**

14 A. For the sake of argument, just to compare like
15 how much oil a two-mile development compared to our
16 scenario versus three-mile/one-mile wells.

17 **Q. Did you assume they were all co-developed or --**

18 A. We did.

19 **Q. You did.**

20 A. Yeah. And that's the plan. We want to
21 co-develop.

22 **Q. So you assume that there was parent performance**
23 **for both the wells.**

24 A. Correct. We have a standard TI curve for our
25 five -- or 10 wells per section, five wells per half

1 section Upper Wolfcamp. I used that for us, and then I
2 didn't give you any degradation, based on the fact that
3 you guys were doing three-mile wells. Which normally you
4 do. We've seen history proves that you lose production
5 efficiency as you extend your laterals, but I was being
6 fair. Based on your loose spacing I wanted to give you
7 the guys the benefit.

8 Q. And how do you -- I can't do the math here
9 because I'm a lawyer, but it looks like you take this out
10 to just short of 2070. How do you know a three-mile well
11 performance out 50-plus years.

12 A. It's the economic life of the well. So it's
13 based off the economic life of well. Aries calculates
14 that for us. So I simply grabbed the production that
15 Aries gives out, throw it into Excel.

16 Q. So you gave them, each of the well developments,
17 the same per-well EUR.

18 A. So again I gave it one for one. So for 500,000
19 barrels for one mile, I gave you 15 -- or 1.5 million
20 barrels for three-mile.

21 Normally there's some degradation going
22 from one-mile to two-mile, but that has to do with lots of
23 things, and I was trying to be fair so I can get a fair
24 assessment of what's going on.

25 So no degradation between the one-mile,

1 two-mile, three-mile.

2 MS. MUNDS-DRY: I think that's all my questions.
3 Let me just make sure I didn't miss anything in here.

4 That's all the questions I have. Thank
5 you, Mr. Stolworthy.

6 THE WITNESS: Thank you.

7 HEARING EXAMINER ORTH: Thank you, Ms.
8 Munds-Dry.

9 Mr. Lowe, do you have questions of
10 Mr. Stolworthy.

11 EXAMINER LOWE: No, I do not. Thank you.

12 HEARING EXAMINER ORTH: All right. Thank you.

13 Mr. Savage, do you have any follow-up with
14 Mr. Stolworthy?

15 MR. SAVAGE: I do. Just a little bit.

16 I believe Mr. Stolworthy has
17 comprehensively answered questions on both sides of the
18 fence during his discussions, so, you know, I'm happy with
19 the information that the Division has received in that
20 exchange. Just a couple of things I'd like to follow up
21 on.

22 REDIRECT EXAMINATION

23 BY MR. SAVAGE:

24 Q. Mr. Stolworthy, if you go out and you determine
25 that a section of land has zero reservoir, zero production

1 potential, I mean technically speaking you could drill
2 that section; is that correct?

3 A. Yes, sir.

4 Q. And, uh, but -- there would be no reason to, but
5 technically you could do that.

6 You pointed out that 100 percent of the
7 operators in this area are stand-up.

8 A. Yes, sir.

9 Q. Technically they could do the east/west but they
10 choose not to. Is that a fair analogy of why they
11 technically do not do the east/west and then they do the
12 north/south?

13 A. Yes, sir.

14 Q. And you mentioned frac geometry.

15 That's a real physical limitation, is that
16 not true?

17 A. Yes, sir.

18 Q. I mean it's not just some sort of theoretical
19 conjecture.

20 A. No, sir.

21 Q. It actually plays into the physical limitation
22 of production.

23 And by doing the north/south you diminish
24 waste, or you do away with waste, but if you do the
25 east/west you have pointed out that you would have

1 **substantial waste. Is that correct?**

2 A. Yes, sir.

3 **Q. And then this is exactly what the Division is**
4 **designed to assess and to prevent?**

5 A. Yes, sir.

6 **Q. The parent/child effect that you described, can**
7 **you describe that and go over that and describe how it**
8 **plays into this scenario?**

9 A. Yes, sir. So parent/child effect is essentially
10 you go in there, you drill one well, and it starts
11 bleeding the area. And then you try to go back in and
12 space a well in there so that you're maximizing your
13 recovery, minimizing losses. But you don't see the
14 production, right? So you see a lack of production. And
15 so we equate that to completion parent/child.

16 It is our goal to co-develop wells wherever
17 possible. I know that a lot of operators have obligations
18 and they don't have time, so they have to go in there and
19 drill parallel.

20 The thing about this whole deal, it is the
21 French and the Horn issues that we would prefer to
22 co-deplete -- I'm sorry, co-develop and co-complete those
23 so that we minimize the parent/child fracs between the
24 offsetting wells and the French and...

25 Does that answer your question?

1 Q. Yes, it does. I just wanted to get that on the
2 record.

3 There's been a lot of discussion around
4 this definition of the concept of stranding, and we are
5 speaking on two different sides of this fence, it sounds
6 like. They are pointing out, and it's a valid point.
7 Theoretically -- let's put it theoretically you are not
8 stranded, again technically drilling a well, you have that
9 capability. But there's a different concept of stranded
10 and that is stranded in effect, as Mr. Young described;
11 functionally stranded; stranded in fact as a pragmatic
12 matter.

13 Would you agree with that?

14 A. Yes, I do.

15 Q. And so you pointed out that right now it's --
16 the development is fully stranded in fact because of the
17 economic condition, but even if those economic conditions
18 improve there is limited capital investment, is that
19 correct, I would assume, to chase those well?

20 A. Yeah, there -- internally we -- there's
21 competition.

22 Q. So it's very possible, very likely that this one
23 model that you have developed.

24 A. Yes, sir. That is our fear.

25 Q. And if the Division is concerned about the waste

1 that would result from that, they should look at the
2 factual matter, the pragmatic matter in lieu of the
3 theoretical matter that theoretically anyone could go and
4 drill this outside the context of any other economic
5 market conditions. Is that fair?

6 A. Yes, sir.

7 Q. Let's talk about the risk status that was
8 discussed.

9 Are there any rigs available that can drill
10 a three-mile?

11 A. I'm not aware of any rigs that are suited to
12 specifically drill three-mile wells. I think, again, it
13 has been done, but you are bumping up against stand-by
14 pressure, you're slowing your motors down, you're not
15 doing it very efficiently.

16 So there are rigs out there that are doing
17 it, but they are not doing it efficiently.

18 Q. Always an inherent risk as a result of that, is
19 that correct?

20 A. Yes, sir.

21 Q. In your opinion, do you believe that the wide
22 spacing that COG is using to prevent interference of the
23 other wells, do you think that is an effort to account for
24 risk at the expense of production?

25 A. Sure. Absolutely.

1 Q. Okay. COG, they -- you mentioned during your
2 discussion that there was a time when during the
3 transition from one-mile wells to two-mile wells that
4 there was a lot of risk involved, and some worked and some
5 failed, and there was essentially a lot failure, but there
6 were also some successes, and that's how progress is made.

7 Do you agree with that?

8 A. Yes, sir.

9 Q. In this -- in these sections, the subject lands,
10 doesn't COG have the best of both worlds? On the east
11 half do they not have their science experiment with the
12 risktaking, it doesn't hurt, doesn't harm anybody, WPX can
13 still drill their two-mile wells, and then on the west
14 half they have the opportunity to take a more conservative
15 approach, a more tried-and-true approach, allow WPX to
16 have its two-miles and then they would also have
17 two-miles. Do you agree that this is the best-case
18 scenario, win-win for everybody?

19 A. I do.

20 Q. And this is reflected, is it not, in the
21 extensive negotiations that WPX made with COG to try to
22 come to a resolution, that that whole concept of letting
23 COG have the best of both worlds and everybody benefiting
24 from production, optimal production, lack of waste and
25 protection of correlative rights, that was the whole

1 intent of that negotiation; is that correct?

2 A. Yes, sir.

3 Q. And do you think that was well communicated? I
4 mean, it was communicated in a manner that COG understood
5 that?

6 MS. MUNDS-DRY: Madam Examiner, I'm going to
7 object. This is outside of Mr. Stolworthy's testimony. I
8 think the negotiation was within Mr. Young's testimony.
9 It certainly wasn't part of my cross. We've gone outside
10 of redirect at this point.

11 HEARING EXAMINER ORTH: Mr. Savage?

12 MR. SAVAGE: I would just say the redirect was
13 rather extensive and it meandered through all kinds of
14 topics, and the point of this is that COG did discuss the
15 east half and the west half operations, and they discussed
16 it throughout. So it seems relevant to the questions of
17 what's, you know, appropriate, uh, relative to these
18 lands.

19 HEARING EXAMINER ORTH: Right. But have you
20 addressed Ms. Munds-Drei's objection it was not part of
21 the scope of his direct or his cross-examination, either
22 one?

23 MR. SAVAGE: Yeah, I'll withdraw that question,
24 then, on the negotiations.

25 HEARING EXAMINER ORTH: All right.

1 MR. SAVAGE: Mr. Stolworthy, I thank you for
2 your time, and I have no further questions.

3 THE WITNESS: Thank you.

4 HEARING EXAMINER ORTH: Thank you, Mr. Savage.

5 If there's nothing else, we can excuse
6 Mr. Stolworthy.

7 THE WITNESS: Thank you.

8 HEARING EXAMINER ORTH: Thank you,
9 Mr. Stolworthy.

10 And I already admitted the relevant
11 exhibits. Let's talk about the post-hearing process a
12 little bit. The transcript will be expected in --

13 MS. MUNDS-DRY: Excuse me, Madam Examiner.

14 HEARING EXAMINER ORTH: Oh, yes.

15 MS. MUNDS-DRY: I apologize for interrupting.

16 We do want to recall Mr. Volk for a very
17 brief rebuttal.

18 HEARING EXAMINER ORTH: I'm sorry. I forgot to
19 invite rebuttal.

20 MS. MUNDS-DRY: I understand the inclination.

21 HEARING EXAMINER ORTH: All right. Please go
22 ahead. Mr. Volk is still on the line, I trust.

23 (Note: Discussion off the record on timing.)

24 MS. MUNDS-DRY: I just also emailed you, Madam
25 Examiner, Mr. Lowe and Mr. Savage, a map that I will be

1 referring to with Mr. Volk, and per Mr. Lowe's direction
2 and request we'll resubmit this all as a package if this
3 exhibit is admitted into evidence, but I wanted to get it
4 in front of you. And hopefully you see it. Does
5 everybody by chance have it in front of them?

6 HEARING EXAMINER ORTH: Yes.

7 MS. MUNDS-DRY: Mr. Savage, do you have access
8 to our email that you are able to pull it up?

9 MR. SAVAGE: I'm looking at it right now. Thank
10 you.

11 HEARING EXAMINER ORTH: Okay; I have it.

12 EXAMINER LOWE: I have it.

13 MR. SAVAGE: I do.

14 MS. MUNDS-DRY: Thank you.

15 SHANE VOLK,

16 called on rebuttal, testified further as follows:

17 EXAMINATION

18 BY MS. MUNDS-DRY:

19 **Q. Mr. Volk, if you can please describe for the**
20 **examiners what we've marked as Concho's Exhibit E. What**
21 **are we showing here?**

22 A. Absolutely. Can everybody hear me okay?

23 Okay. Great. Thank you for the quick
24 opportunity to do this. I promise I will be very brief.

25 In the prior testimony WPX had presented a

1 map that I think demonstrated their expertise with
2 two-mile wells in the Wolfcamp. Our team felt that there
3 was perhaps another way, an alternate way to show this
4 data that maybe is a more appropriate view of the near
5 vicinity of the units in question today, and on this map
6 we've zoomed in to a six-Township area where you can see
7 the sections in question today highlighted in yellow.

8 Similarly, Concho's wells are in red, WPX's
9 wells are in black, and, as was alluded to during some of
10 the cross, the western portions of these western Townships
11 were omitted from WPX's map, which is really important,
12 because you can see just how many two-mile wells and wells
13 that are greater than two miles that Concho has in fact
14 executed and brought on line.

15 And I think most importantly in the
16 southwestern portion of 26, 28, we have brought nine wells
17 in 2020, at six wells per section and at greater than two
18 miles, and have a lot of data at different spacings and a
19 lot of operator pressure data that give us a lot of
20 indications about what optimal spacing is and about how
21 the wells are interfering and communicating with each
22 other.

23 And I think if you look at this map, as
24 well, in this area you'll see that WPX does not have any
25 wells that are greater than a mile and half.

1 So I think this perhaps sheds a different
2 light on who has the true expertise in this area, and I
3 think it's Concho.

4 **Q. And for the record, Mr. Volk, this shows acreage**
5 **in New Mexico only; is that correct?**

6 A. That is correct. It is in New Mexico only.

7 **Q. And this is in comparison to WPX's map that they**
8 **used marked as Exhibit A-5 and D-4, correct?**

9 A. Correct.

10 MS. MUNDS-DRY: I have nothing further from
11 Mr. Volk. I pass the witness.

12 HEARING EXAMINER ORTH: All right. Thank you.

13 Mr. Savage, do you have a question for
14 Mr. Volk?

15 CROSS EXAMINATION

16 BY MR. SAVAGE:

17 **Q. Mr. Volk, I believe that the -- what the**
18 **perspective you gave, the scope of the map you gave**
19 **actually expands out further. Is that correct?**

20 A. Yes. Yes, sir. It expands slightly to the west
21 by three sections to the west.

22 **Q. Three miles to the west?**

23 A. But only --

24 I'm sorry. Go ahead.

25 **Q. No, go ahead.**

1 But looking at the circumference of the
2 subject lands in that surrounding area specifically, who
3 has the greater concentration.

4 A. Who has the greater concentration of what?

5 Q. Operations.

6 A. I would argue that Concho does in this area.

7 Q. Within the larger expansion sphere?

8 A. Do you mean within the map that --

9 Q. That's correct, we have two maps. We have two
10 maps involved. One map that provides a narrower scope and
11 the other map that provides a different orientation.

12 A. I think that was the point, that it's -- you
13 know, depending on how you want to -- what map you want to
14 create, it can definitely send one message or the other.

15 I think zooming in we would argue is more
16 appropriate, because all of these wells are much closer to
17 the units in question, and I think validate that we have
18 the necessary data to make the assumptions that we have
19 about how to efficiently and economically develop these
20 sections.

21 MR. SAVAGE: Thank you, Mr. Volk. No further
22 questions.

23 HEARING EXAMINER ORTH: Thank you, Mr. Savage.

24 Mr. Lowe, do you have any questions of
25 Mr. Volk?

1 TECHNICAL EXAMINER LOWE: Yes. Just a quick
2 question.

3 CROSS EXAMINATION

4 BY TECHNICAL EXAMINER LOWE:

5 Q. Are these wells, these maps that are located on
6 this well in reference first to COG's, are you showing
7 that they -- that the -- are they in particular to this
8 formation well that you're seeking currently or is it just
9 wells in general, overall?

10 A. So we did -- what he tried to do is an identical
11 philosophy with what WPX did, so these are all Wolfcamp
12 targets. I will note, however, that the majority of those
13 wells are the Wolfcamp A, which is the formation that
14 we've been discussing for the target today.

15 EXAMINER LOWE: Thank you. That is all.

16 HEARING EXAMINER ORTH: All right. Thank you,
17 Mr. Lowe.

18 And thank you, Mr. Volk. Unless, Ms.
19 Munds-Dry, did you have any follow-up?

20 MS. MUNDS-DRY: No. Thank you.

21 HEARING EXAMINER ORTH: All right. Thank you.

22 You are excused again, Mr. Volk. Let's
23 talk briefly about the --

24 MR. SAVAGE: Oh, Madam Examiner, we have a
25 rebuttal witness, as well, as well as a rebuttal exhibit.

1 HEARING EXAMINER ORTH: So at this point I think
2 we are going to have to take a short break before we
3 proceed.

4 MR. SAVAGE: Okay. It's directly connected to
5 the previous testimony, as well as another rebutting and
6 an additional item.

7 HEARING EXAMINER ORTH: That's fine. Happy to
8 take it, but we need a break.

9 MR. SAVAGE: Okay.

10 HEARING EXAMINER ORTH: So let's take 10
11 minutes, and we'll come back at 10 minutes before 3:00.

12 Note: In recess from 2:40 p.m. to 2:52 p.m.)

13 HEARING EXAMINER ORTH: All right. So we are
14 back on the record after a short break to finish the
15 hearing in these two matters, 21344 and 23171.

16 When we broke COG had called its rebuttal
17 witness, and now as I understand it, Mr. Savage, you would
18 also like to call a rebuttal witness.

19 MR. SAVAGE: Yes, please. Yes, Madam Examiner.
20 I'm going to call Justin Stolworthy as a rebuttal witness.
21 And he will first address inapplicability of Mr. Volk's
22 map, and then he will address the inapplicability of
23 Mr. Volk's Exhibit C-1, and that's based on a Rebuttal
24 Exhibit 1 that I sent to everybody by email.

25 HEARING EXAMINER ORTH: Okay. Thank you.

1 Mr. Stolworthy, let's see. You are
2 unmuted.

3 THE WITNESS: Yes, ma'am.

4 JUSTIN STOLWORTHY,
5 called as a rebuttal witness, testified as follows:

6 EXAMINATION

7 BY MR. SAVAGE:

8 Q. Mr. Stolworthy, did you receive the map that was
9 provided by Mr. Volk?

10 A. Yes, sir, I did.

11 Q. And have you reviewed it and compared it to the
12 map that WPX has provided?

13 A. Yes, sir.

14 Q. Do you agree that's inapplicable, flawed in its
15 representation?

16 A. I do.

17 Q. And could you explain why that is the case?

18 A. Yes, sir. So according to the Wolfcamp A
19 isopach map that we have in house, the reservoir bends as
20 you go to the west by over 50 feet, and the upper
21 production increases. So it makes sense that you would
22 probably want to space your wells not as tight in this
23 exhibit versus where we are actually talking about.

24 So, yeah, I think if you want to do a fair
25 comparison you would actually move to the east where rock

1 properties are more similar.

2 So we are comparing apples to oranges
3 again.

4 Q. And if you moved to the east you would see that;
5 is that correct?

6 A. Correct. And we are talking directly offset if
7 you look at the exhibits I provided. Those are correct
8 offsets, they are not six miles to the west or whatever.
9 They are direct offsets in like properties, rock
10 properties.

11 Q. And COG made a point that somehow this is
12 important because it includes just New Mexico and does not
13 include the wells just across the border. What is your
14 opinion of that?

15 A. The reservoir doesn't care if it's in New Mexico
16 or Texas. It's all the same.

17 Q. The Texas border is arbitrary regarding the
18 nature of the reservoir?

19 A. Yes, sir. If you want to compare apples to
20 apples you have to move down and to the east. That's why
21 you don't see the development much farther west than what
22 we're talking about here, is because the reservoir bends
23 and the resource just isn't there.

24 MR. SAVAGE: Madam Examiner, do we want to do
25 cross on this one issue right now or do you want me to

1 move on to the review of Exhibit C-1, Mr. Volk's Exhibit
2 C-1?

3 HEARING EXAMINER ORTH: Ms. Munds-Dry, what are
4 your preferences here?

5 MS. MUNDS-DRY: I think I just have one question
6 for Mr. Stolworthy, so if I could ask it now it would be
7 great.

8 MR. SAVAGE: Yeah.

9 HEARING EXAMINER ORTH: All right.

10 CROSS EXAMINATION

11 BY MS. MUNDS-DRY:

12 Q. MR. Stolworthy, would you agree with me that
13 the map that COG provided as Exhibit E also shows that COG
14 does in fact operate Wolfcamp A wells in this general
15 area?

16 A. To the west, yes, ma'am.

17 Q. To the west?

18 A. Yes, ma'am.

19 Q. And some of those wells are two-mile wells?

20 A. It appears so. Yes, sir.

21 MS. MUNDS-DRY: Thank you. That's all my
22 questions.

23 HEARING EXAMINER ORTH: Thank you, Ms.
24 Munds-Dry.

25 Go ahead, Mr. Savage.

1 Oh, wait. Sorry. I forgot Mr. Lowe. Mr.
2 Lowe, do you have questions of Mr. Stolworthy on this one
3 issue?

4 EXAMINER LOWE: No, I do not. Thank you.

5 HEARING EXAMINER ORTH: Okay. Thank you. Go
6 ahead, Mr. Savage.

7 MR. SAVAGE: Did everybody receive that exhibit,
8 rebuttal exhibit, Exhibit 1, that I sent via email?

9 Okay.

10 FURTHER DIRECT EXAMINATION

11 BY MR. SAVAGE:

12 Q. Mr. Stolworthy, do you have a -- can you review
13 Exhibit C-1 by Mr. Volk?

14 A. Yes, sir.

15 Q. Looking at that.

16 And I understand you have looked at this,
17 analyzed the economic information, recovery information,
18 and you also provided a set of tables that address this.

19 If you would, could you walk through for
20 the examiners each item and explain why it is not an
21 accurate representation of the data?

22 A. Okay. So I -- in a nutshell, they have excluded
23 Section, the west half of Section 22, and to be fair you
24 have to compare apples to apples. They are comparing
25 apples to oranges. So I said: Let's do our own -- let's

1 use their template and let's run our own scenario and see
2 what the numbers suggest.

3 And so that's what Rebuttal Exhibit 1 is.
4 We call it Value Erosion by Concho's Three-Mile Wells.

5 So if you include Concho's three-mile wells
6 in the west half of Section 22 so that we are comparing
7 apples to apples, the economics look significantly
8 different, because of the uneconomic nature of the model.

9 And so I just was trying to compare apples
10 to apples, and in doing so, you know if you look at the
11 revised table on Exhibit 1, our MPV at 10 percent
12 discounted, is actually a positive 33 percent where they
13 have stated that it has a negative impact on their MPV.

14 The CapEx is actually less in our preferred
15 scenario versus theirs.

16 The productivity index is increased 17
17 percent, rate of return is increased, and actually the D&C
18 per foot is increased in our scenario.

19 So again just trying to compare apples to
20 apples.

21 And then the bottom of that is comparing
22 one-mile development versus two-mile development, and you
23 can see the dramatic impact two-mile development has
24 versus one-mile development and why we consider the west
25 half of Section 22 stranded.

1 Does that answer your question?

2 Q. It does. Thank you, Mr. Stolworthy. I
3 appreciate that.

4 I ask that Rebuttal Exhibit 1 be accepted
5 into the record. Either that, or if we can accept it, we
6 will submit the rebuttal exhibits at a later date for the
7 record.

8 HEARING EXAMINER ORTH: Ms. Munds-Dry, do you
9 have any objection?

10 MS. MUNDS-DRY: No objection.

11 HEARING EXAMINER ORTH: All right. Rebuttal
12 Exhibit 1 is admitted.

13 Is Mr. Stolworthy ready for questioning?

14 Mr. Savage?

15 MR. SAVAGE: Yes, Mr. Stolworthy is available
16 for questioning.

17 HEARING EXAMINER ORTH: Thank you.

18 Ms. Munds-Dry.

19 MS. MUNDS-DRY: Thank you.

20 FURTHER CROSS EXAMINATION

21 BY MS. MUNDS-DRY:

22 Q. Mr. Stolworthy, for your CapEx numbers, did you
23 take them from COG's exhibits or from our AFEs that we
24 submitted, or where did you get those numbers?

25 A. I actually used our numbers. I didn't have

1 COG's two-mile CapEx numbers, so I improvised and I used
2 ours. But I used the three-mile AFEs that you provided us
3 in your proposal, and I used our one-mile.

4 Q. And has WPX -- I assume, just like Concho has,
5 have you seen well costs go down since we sent those AFEs
6 to you in April?

7 A. Yes, ma'am.

8 Q. So that could change the outcome of your numbers
9 if well costs have gone down?

10 A. Yes, ma'am. Yeah.

11 Q. And this assumes, I think, that our EURs are the
12 same, as well?

13 A. That is correct. I was very generous on EURs
14 for three-mile.

15 Q. Does this also assume there's no interference
16 between WPX's wells?

17 A. Those wells are all co-developed.

18 Q. Okay. But being co-developed is different than
19 interference you might see after stimulation over the long
20 run, right? The parent/child effect and interference can
21 be two different things, right?

22 A. Fair enough. Yes. So this is our TI curve for,
23 again, 10 wells per section, five wells per half section.
24 Yes, ma'am.

25 MS. MUNDS-DRY: That's all the questions I have.

1 Thank you, Madam Examiner.

2 HEARING EXAMINER ORTH: Okay. Thank you, Ms.
3 Munds-Dry.

4 Mr. Lowe, do you have any questions for Mr.
5 Stolworthy.

6 EXAMINER LOWE: I don't have questions right
7 now. I got them. Thank you.

8 HEARING EXAMINER ORTH: All right. Thank you.
9 Mr. Savage, any follow-up?

10 MR. SAVAGE: Yeah, I'm satisfied. Yeah, I don't
11 have any questions. I'm finished.

12 HEARING EXAMINER ORTH: Sorry, I didn't hear
13 what you said.

14 MR. SAVAGE: I'm sorry. What was the question?

15 HEARING EXAMINER ORTH: Do you have any redirect
16 of Mr. Stolworthy?

17 MR. SAVAGE: I have no redirect on this.

18 HEARING EXAMINER ORTH: All right. Thank you.
19 Thank you very much.

20 Then it sounds like we can excuse
21 Mr. Stolworthy a second time.

22 THE WITNESS: Thank you.

23 HEARING EXAMINER ORTH: So let's talk about the
24 posthearing process.

25 We can expect the transcript in two weeks,

1 as I understand it. That puts us on November 5th.

2 How long after the transcript is received
3 would counsel like to have in order to prepare whatever
4 written closing argument you have, or any proposed
5 Findings of Fact or Conclusions of Law.

6 MS. MUNDS-DRY: I would propose a week, Madam
7 Examiner, but open for discussion.

8 HEARING EXAMINER ORTH: Okay. Mr. Savage, any
9 comments?

10 MR. SAVAGE: A week, week and a half, that
11 sounds reasonable.

12 HEARING EXAMINER ORTH: Okay. Well, a week
13 would put us on the 12th, a week and a half would put us
14 on the 16th, which is a Monday. What do you think about
15 Monday?

16 November 16th?

17 MS. MUNDS-DRY: That works for us.

18 MR. SAVAGE: Okay. That's good.

19 HEARING EXAMINER ORTH: Okay. So again look for
20 the transcript around November 5th, and I will -- we will
21 be looking for your posthearing submittals by 5:00 p.m.
22 November 16th.

23 If you will please submit them to the
24 hearings bureau and copy me and each other.

25 MS. MUNDS-DRY: Madam Examiner, I can't remember

1 if I asked for the admission of our rebuttal Exhibit E,
2 and so I apologize. I'd ask it be admitted into evidence
3 in case I didn't.

4 HEARING EXAMINER ORTH: I don't remember that
5 you offered it. And I certainly heard testimony about it.

6 Mr. Savage, is there any objection?

7 MR. SAVAGE: No objection.

8 HEARING EXAMINER ORTH: All right. COG
9 Rebuttal Exhibit E is admitted.

10 Is there anything else that we should talk
11 about while we are all together?

12 EXAMINER LOWE: I would just like to mention
13 that that last submittal from Mr. Savage, could you please
14 convert it to a .pdf and submit it again?

15 MR. SAVAGE: I sure will. I will do that as
16 soon as we conclude.

17 EXAMINER LOWE: Okay. Thank you.

18 HEARING EXAMINER ORTH: Thank you, Mr. Lowe.

19 Anything else at all?

20 MR. RODRIGUEZ: Real briefly, Madam Examiner.

21 Examiner Lowe, we actually just sent our
22 exhibit packet with the revised land exhibit and the
23 rebuttal exhibit attached for your reference. If there's
24 anything wrong with that or you want us to add anything
25 else, please let us know.

1 EXAMINER LOWE: That should be fine. Thank you.

2 MR. RODRIGUEZ: Thank you, Mr. Rodriguez.

3 Anything else at all? Going once.

4 Okay. Thank you all for participating in a
5 longer hearing. We will adjourn.

6 I will not end the hearing because I need
7 to stay on with Marlene for a little bit, but I'll say
8 goodbye.

9 (Note: Proceedings concluded.)

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1 STATE OF NEW MEXICO)

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3 COUNTY OF TAOS)

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