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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

**ORIGINAL**

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

CASE NO. 14143

APPLICATION OF XTO ENERGY, INC. TO AMEND  
DIVISION ORDER NO. R-12824 TO INCLUDE  
SIMULTANEOUS DEDICATION AND AN EXCEPTION  
TO THE WELL DENSITY REQUIREMENTS OF THE  
SPECIAL RULES AND REGULATIONS FOR THE  
BASIN-DAKOTA GAS POOL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: David K. Brooks, Legal Examiner  
Richard Ezeanyim, Technical Examiner  
Terry Warnell, Technical Examiner

June 26, 2008

Santa Fe, New Mexico

This matter came for hearing before the New Mexico Oil  
Conservation Division, David K. Brooks, Legal Examiner, Richard  
Ezeanyim, Technical Examiner, and Terry Warnell, Technical  
Examiner, on June 26, 2008, at the New Mexico Energy, Minerals  
and Natural Resources Department, 1220 South St. Francis Drive,  
Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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# A P P E A R A N C E S

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FOR THE APPLICANT:

19

James G. Bruce, Esq.

20

ATTORNEY AT LAW

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P.O. Box 1056

22

Santa Fe, New Mexico 87504

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1 MR. EZEANYIM: At this point, I call Case No. 14143.  
2 This is on Page 3. This is the Application of XTO Energy, Inc.  
3 to Amend Division Order No. R-12824 to Include Simultaneous  
4 Dedication and an Exception of the Well Density Requirements of  
5 the Special Rules and Regulations for the Basin-Dakota Gas  
6 Pool.

7 Before -- go ahead. I call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe  
9 representing the applicant. I have three witnesses.

10 MR. EZEANYIM: Any other appearances? May the  
11 witnesses stand up and state your names to be sworn, please.

12 MR. SPENCER: Christopher Spencer.

13 MR. KLUTSCH: John Klutsch.

14 MS. FLYNN: Mary Flynn.

15 [Witnesses sworn.]

16 MR. EZEANYIM: Mr. Bruce, before you start, let me  
17 make a comment to make sure I understand what you guys are  
18 looking for here.

19 In this Case No. 14143, you say you want to amend  
20 order number -- I know you got this case from another  
21 attorney -- amend Order No. 12824. This is the  
22 Blanco-Mesaverde sections. I don't think you are looking to  
23 amend that order, if that is the correct information. I think  
24 what you are asking for is the simultaneous dedication and an  
25 exception to the special pool rules for the Basin-Dakota Gas

1 Pool. We're not going to amend Order No. 12824. That's a  
2 different order, you know -- I mean, the Blanco-Mesaverde pool.  
3 So is that what you want to do in this case?

4 MR. BRUCE: Mr. Examiner, the reason Mr. Kellahin did  
5 that is because the well involved in this case is the same as  
6 the well involved in Order 12824.

7 MR. EZEANYIM: I understand that.

8 MR. BRUCE: So since it involved the same well, he  
9 was just seeking to amend the order. But you are correct, this  
10 case does not involve the Blanco-Mesaverde because that's  
11 already been approved.

12 MR. EZEANYIM: So I'm telling you I'm not going to  
13 amend that order. We're going to consider an exception to the  
14 special pool rules for the Mesaverde Dakota, not the  
15 Blanco-Mesaverde. And I'm not going to change that order  
16 because that's for Blanco-Mesaverde, not for the Basin-Dakota.  
17 That's different pools.

18 MR. BRUCE: That's perfectly fine.

19 MR. EZEANYIM: Just before we started, I wanted to  
20 make sure I cleared that up.

21 MR. BRUCE: And I just wanted to clarify it is the  
22 same well involved that would test both zones.

23 MR. EZEANYIM: Okay, now. Go ahead.  
24  
25

1 CHRISTOPHER SPENCER

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name and city of  
7 residence for the record.

8 A. Christopher Spencer, Ft. Worth, Texas.

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

10 A. XTO Energy. I'm a senior landman.

11 Q. Have you previously testified before the  
12 Division?

13 A. Yes.

14 Q. And were your credentials as an expert landman  
15 accepted as a matter of record?

16 A. Yes.

17 Q. And are you familiar with the land matters  
18 involved in this application?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I tender Mr. Spencer as an  
21 expert petroleum geologist -- I mean, petroleum landman.

22 Sorry.

23 MR. EZEANYIM: Are you a petroleum landman?

24 THE WITNESS: Yes.

25 MR. EZEANYIM: You are so qualified.

1 Q. (By Mr. Bruce): Mr. Spencer, if you could turn  
2 to XTO's Exhibit 1 and describe what you are seeking in this  
3 application.

4 A. We are seeking permission for a fifth well in the  
5 Basin-Dakota Formation in an irregularly-sized section.

6 Q. Okay. Maybe you should turn to Exhibit 2, and  
7 that will give some idea of what this section is comprised of.  
8 What acreage is in this well unit?

9 A. This well unit consists of the south half of the  
10 south half of Section 19 and all of the north half of  
11 Section 30. Both of those comprise 407.56 acres.

12 Q. Okay. So that was an out-sized unit approved  
13 quite some time ago, I believe.

14 A. Yes.

15 Q. And not just for the original case regarding the  
16 Gerk Com No. 2?

17 A. Correct.

18 Q. And what are the pool rules in the Basin-Dakota?

19 A. The pool rules in the Basin-Dakota by standard  
20 rules, are four wells in a 320-acre standard sized units.

21 Q. Okay. So this well unit is approximately  
22 87 acres greater than a standard well unit?

23 A. Correct.

24 Q. And so, in other words, under a current standard  
25 unit, 320 acres, I believe you can't have two wells in the same

1 quarter/quarter section?

2 A. Correct.

3 Q. But you can have two wells per quarter section?

4 A. Yes.

5 Q. And this would just conform to the normal well  
6 density of a four-well per 320-acre unit?

7 A. Yes.

8 Q. As you noted when the Hearing Examiner was  
9 talking, this concerns the Gerk Com B Well No. 2. Has that  
10 well been drilled at this point?

11 A. No.

12 Q. Okay. Referring to Exhibit 2, does that identify  
13 the offset operator?

14 A. Yes.

15 Q. And was notice of this application given to all  
16 of the offset operators?

17 A. Yes.

18 Q. Is that reflected in Mr. Kellahin's certificate  
19 submitted as Exhibit 3?

20 A. Yes.

21 Q. Were Exhibits 1, 2, and 3 prepared by you or  
22 compiled from company business records?

23 A. Yes.

24 Q. And in your opinion, is the granting of this  
25 application in the interest of conservation and the prevention

1 of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I tender Exhibits 1 through  
4 3 be admitted into evidence.

5 MR. EZEANYIM: Exhibits 1 through 3 will be admitted.

6 [Applicant's Exhibits 1 through 3 admitted into  
7 evidence.]

8 MR. BRUCE: And I have no further questions of the  
9 witness.

10 MR. EZEANYIM: Any questions?

11 MR. WARNELL: No.

12 MR. BROOKS: No questions.

13 MR. EZEANYIM: No questions.

14 MR. BRUCE: Mr. Examiner, before I begin with the  
15 next witness, we do have a CD that contains all of the exhibits  
16 just in case you want that.

17 MR. EZEANYIM: Thank you.

18 JOHN KLUTSCH

19 after having been first duly sworn under oath,  
20 was questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Will you please state your name for the record.

24 A. John Klutsch.

25 Q. And where do you reside?



1 A. Ft. Worth, Texas.

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

3 A. XTO Energy. I'm a division geologist.

4 Q. Have you previously testified before the Division  
5 as a geologist?

6 A. Yes.

7 Q. And were your credentials as an expert accepted  
8 as a matter of record?

9 A. Yes.

10 Q. Does this area -- does your area of  
11 responsibility at XTO include this part of the San Juan Basin?

12 A. Yes.

13 Q. And you are familiar with the geology involved in  
14 this application?

15 A. I am.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Klutsch as an  
17 expert petroleum geologist.

18 MR. EZEANYIM: Mr. Klutsch is so qualified.

19 Q. (By Mr. Bruce): Mr. Klutsch, we've marked all of  
20 your geologic exhibits as just one Exhibit 4, and there are a  
21 number of them. And rather than interrupting, why don't you  
22 run through and tell the examiners a little bit about the  
23 geology in these exhibits?

24 A. Certainly. The first page of Exhibit 4 is  
25 labeled Page 4. It's a regional structure map of the

1 Huerfanito Bentonite showing structural configuration of the  
2 Basin. Up dip is to the southwest, and down dip is to the  
3 northeast. I've got Bloomfield, New Mexico, blocked out for  
4 location and an arrow pointing to the two sections in question,  
5 Section 19 and 30 of Township 59 North, 9 West.

6 Next page, No. 5, is a location and production map  
7 with a circle surrounding the spacing unit in question. The  
8 wells are attributed with -- it looks like an orange, but it's  
9 truly a pink -- our Dakota wells. Blue are Mesaverde producing  
10 wells, and anything that has a red on it also produces from the  
11 Chacra.

12 Next page, No. 2, is a little closer view of the  
13 spacing unit with the topography included to let the Commission  
14 know that we're not putting this well on the top of a mountain  
15 or in the center of a stream. Same attribute --

16 Q. Well locations can be difficult in this area,  
17 correct?

18 A. They can be. And the same attributes apply to  
19 the wells here, the pink being Dakota, the blue Mesaverde, and  
20 the red is Chacra.

21 Page No. 7, which is the next page, is a west to east  
22 Dakota cross section. The location of this will be shown on  
23 additional figures. Here I'm depicting the various Dakota  
24 zones from the top to the bottom. DK 1 or Dakota 1 is  
25 uppermost down to DK BC which abbreviates Burro Canyon.

1           Below that is Morrison. And the purpose of these two  
2 cross sections is to show the stratigraphic variance of the  
3 various sands as they exist underneath the spacing unit. So  
4 Page 7 is a west to east.

5           Page 8 is a north to south cross section. Same  
6 purpose of this cross section as the previous, just to show the  
7 variability of the sand thickness.

8           Page 9 is a structure map on top of the Dakota 1.  
9 Yellow acreage is XTO's. The locations of the cross sections  
10 are in red lines, the west to east and the north to south. The  
11 purpose of this figure is to show the complexity of the  
12 structure in this area, and further depict how the reservoirs  
13 are being compartmentalized by the faulting.

14           An additional well in this area has the opportunity  
15 of encountering more of these small compartments and getting  
16 otherwise unproduced gas.

17           Page 9 -- or Page 10. Excuse me. These next few  
18 figures are a series of net sand isopachs. Starting near the  
19 top, there was no sand in the Dakota 1 so it starts with  
20 Dakota 2. And the purpose of these are just to show how the  
21 thickness of the sand, these various sands, change laterally  
22 over the area.

23           Attributes on each one of these figures around  
24 the wells -- surrounding the wells -- indicate that that well  
25 has been perforated for -- is proposed to be productive out of

1 this particular zone. So you've got little tan attributes  
2 around each one that has been perforated. And the number next  
3 to the well is the data that was used to draw the isopach. So  
4 this is Dakota 2, and the well that we're talking about is in  
5 the southeast quarter of Section 19, and it indicates it'll  
6 encounter a little pod of Dakota 2 sand rated at 10 feet.

7 Page 11 is the next sand below. This is the  
8 Dakota 3. Once again, the attributes indicate what wells have  
9 been perforated in that zone, and the data is in red next to  
10 the well. Again, the purpose of this is to show the  
11 variability of the thickness of the sand.

12 Page 12 is the Dakota 4 net sand isopach. Sands are  
13 becoming more channelized here and so the contours reflect  
14 that.

15 Page 12 -- or 13, excuse me -- is the Dakota 5. And  
16 this particular sand has a fairly high variability and  
17 thickness over the area. It goes from upwards of 54 feet thick  
18 down to four feet over the area, so it was quite variable.

19 Page 14 is Dakota 6. And once again, its isopach  
20 shows a high variability of thickness over the area. The last  
21 isopach on Page 15 is that of Burro Canyon. Often, the Burro  
22 Canyon is wet in the San Juan Basin, but we've been fortunate  
23 to find portions of it that has pay in it. And again, it's  
24 totally variable in its thickness.

25 Last of my figures is Page 16. And once again, a

1 close-up of a topography map over the spacing unit with the  
2 attributes showing what the well is produced from.

3 Q. You mentioned, again, the topography. The well  
4 location is already picked and has been approved, correct?

5 A. Yes, sir.

6 Q. And from a geologic standpoint, is a fifth well  
7 in this well unit necessary to adequately produce all of the  
8 reserves?

9 A. Yes.

10 Q. Was Exhibit 4 prepared by you or under your  
11 supervision?

12 A. It was.

13 Q. And in your opinion, is the granting of this  
14 application in the interest of conservation and the prevention  
15 of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I move the admission of  
18 XTO's Exhibit 4.

19 MR. EZEANYIM: Exhibit 4 will be admitted.

20 [Applicant's Exhibit 4 admitted into evidence.]

21 MR. BRUCE: And I have no further questions of the  
22 witness.

23 MR. EZEANYIM: Do you have any questions?

24 MR. BROOKS: No questions.

25 MR. EZEANYIM: You are just talking about that Gerk

1 well. I thought the well had been drilled. Why are you asking  
2 whether it is in a standard location or not? The well has been  
3 drilled already in the Blanco-Mesaverde, but you want to go to  
4 Basin-Dakota. Is that --

5 MR. BRUCE: The well has not been drilled.

6 THE WITNESS: This well has not been drilled. There  
7 was another well, the Snyder well, in the spacing unit to the  
8 north that we got permission for the Mesaverde. We have  
9 drilled that well and the Commission gave us permission to  
10 drill that well to the Dakota before we got this approved. So  
11 that well has been drilled. It just hasn't been completed yet.

12 MR. EZEANYIM: Which well did you get Order No.  
13 R-12824 for? Which well is that?

14 MR. BRUCE: It's the same well.

15 MR. EZEANYIM: So it's already been drilled?

16 MR. BRUCE: Correct.

17 MR. EZEANYIM: You got the order already but it  
18 hasn't been drilled. Okay. I thought this had already been  
19 drilled because the order was issued some time ago. Okay. And  
20 the well is on this other location?

21 THE WITNESS: I believe so. Yes, sir.

22 MR. EZEANYIM: Okay. I was of the opinion that the  
23 well had already been drilled in the Mesaverde. Okay.

24 Any questions?

25 MR. BROOKS: No questions.

EXAMINATION

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BY MR. WARNELL:

Q. Mr. Klutsch, I have a question for you on your isopachs. I believe two of them, Page 10 and 12, your contour interval is based on five feet rather than 10 feet like all the rest; is that correct?

A. That would be correct.

Q. Okay. And it's your belief that the Burro Canyon will not be wet in this area?

A. In this particular location, it's hard to tell, sir. I'm not optimistic about the Burro Canyon at this point.

Q. And your cross sections?

A. Yes, sir.

Q. Those are difficult to read.

A. They are.

Q. Looks very nice at a glance, but -- I was going to ask you what the PD's reading is on one of those, but I'm not sure I can even see a PD.

A. And I'd be hard to tell you.

Q. I don't know. Okay. But all of this is on that CD, Mr. Bruce?

MR. BRUCE: Yes.

MR. WARNELL: Thank you.

MR. EZEANYIM: You want us to decide today?

MR. BRUCE: Yes.

1 MR. EZEANYIM: I want to use this opportunity to  
2 clarify something. I don't know. I happen to come across --  
3 when I see them and they are not right, I am not happy about  
4 it. You said this case says -- maybe you have advice and maybe  
5 you have it for here. You are asking for a decision for that  
6 special Rule 1B of Order No. 10987, you know, B. I went there  
7 and there's nothing like that, no Rule 1B. I started looking  
8 for it. I called the attorney. And then I started hunting for  
9 that. I wanted you to give us that information so I don't have  
10 to waste a whole day looking for it.

11 The application says you want an exception to that 1B  
12 of that rule. I went and it wasn't there. Now, when I go  
13 to -- I found it. I found the 10987 B2. And it's not 1B you  
14 are asking the exception for. You're asking the exception for  
15 2B.

16 MR. BRUCE: Okay.

17 MR. EZEANYIM: That's really what it is, and that's  
18 what I expect people to cite so that it's easy for us to go and  
19 find it out and know what you are actually asking for.

20 So during the process, we decide what, you know, if I  
21 say, okay, Rule 1B, you will get an exception on Rule 1B. And  
22 if I would write an order with the section there, it doesn't do  
23 any good for you, because that's not the rule you cited.

24 MR. BRUCE: Right. I understand. And you were  
25 looking at the application, Mr. Examiner?



1 MR. EZEANYIM: Yes.

2 MR. BRUCE: I apologize. It might have just been a  
3 typo by Mr. Kellahin.

4 MR. EZEANYIM: Let me hold our questions until we  
5 hear from the third witness.

6 MARY FLYNN

7 after having been first duly sworn under oath,  
8 was questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Would you please state your name for the record.

12 A. Mary Flynn.

13 Q. And where do you reside?

14 A. Ft. Worth, Texas.

15 Q. And have you previously testified before the  
16 Division?

17 A. Yes.

18 Q. And I suppose I should say, who do you work for  
19 and in what capacity?

20 A. XTO Energy, and I'm petroleum engineer.

21 Q. Have you previously testified before the  
22 Division?

23 A. Yes, sir.

24 Q. And were your credentials as an expert accepted  
25 as a matter of record?

1 A. Yes.

2 Q. Does your area of responsibility at XTO include  
3 this part of the San Juan Basin?

4 A. It does.

5 Q. Are you familiar with the engineering matters  
6 involved in this case?

7 A. Yes, I am.

8 MR. BRUCE: Mr. Examiner, I tender Ms. Flynn as an  
9 expert reservoir engineer.

10 MR. EZEANYIM: Ms. Flynn, you are a reservoir  
11 engineer?

12 THE WITNESS: I am.

13 MR. EZEANYIM: You are very well qualified.

14 Q. (By Mr. Bruce): Ms. Flynn, your exhibits have  
15 been marked Exhibit 5. Would you turn to the first page and  
16 describe the reservoir characteristics?

17 A. Well, over this 407.56 acres, I looked at each of  
18 the logs that penetrate the Dakota, and that was -- well, the  
19 average gas saturation was about 50 percent. The porosity was  
20 7 percent. There's about 55 feet of average pay.

21 You'll see from the next page, Page 18, that the pay  
22 varies from 22 to 93 feet with the average being 55. The  
23 average drainage area of existing wells in those, based on the  
24 expected ultimate recovery, is 55 acres. The average ultimate  
25 recovery from those wells is 591 million cubic feet, with the

1 newer wells actually being better than the older wells. The  
2 post-2000 wells are averaging about 599 million cubic feet.

3 Q. Okay. Turn to the third page and discuss a  
4 little bit about the economics of the well.

5 A. Well, assuming that we'll get about 599 million  
6 cubic feet on an average -- I rounded it up to 600 million  
7 cubic feet -- using the average flow characteristics where we  
8 have initial 75 percent decline and then it'll flatten out to  
9 25 and then go to about 7 percent decline. And its economic  
10 limit with pay out is determined to be about two years.

11 The pay out was estimated to be about two years,  
12 which is an acceptable rate of return at XTO.

13 Q. With -- if this well is approved, you'll have one  
14 well per every 80 acres or so on this well unit. But even  
15 without that, with the drainage being 55 acres, you're not  
16 asking for anything more than you'd otherwise be entitled to,  
17 are you?

18 A. Correct.

19 Q. Was Exhibit 5 prepared by you?

20 A. Yes, sir.

21 Q. And in your opinion, is the granting of this  
22 application in the interest of conservation and the prevention  
23 of waste?

24 A. Yes, it is.

25 MR. BRUCE: Mr. Examiner, I move the admission of

1 Exhibit 5.

2 MR. EZEANYIM: Exhibit 5 will be admitted into  
3 evidence.

4 [Applicant's Exhibit 5 admitted into evidence.]

5 MR. EZEANYIM: Mr. Brooks?

6 MR. BROOKS: No questions.

7 MR. EZEANYIM: Mr. Warnell?

8 MR. WARNELL: No questions.

9 MR. EZEANYIM: The area is 55 acres, right?

10 THE WITNESS: Correct.

11 MR. EZEANYIM: At this point, I have no further  
12 questions. This noise is disturbing me a lot. So at this  
13 point, Case No. 14143 will be taken under advisement.

14 [Hearing concluded.]

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## REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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

Signed this 26th day of June, 2008.



JOYCE D. CALVERT  
New Mexico P-03  
License Expires: 7/31/09

1 STATE OF NEW MEXICO )  
 2 COUNTY OF BERNALILLO )

3

4 I, JOYCE D. CALVERT, a New Mexico Provisional  
 5 Reporter, working under the direction and direct supervision of  
 6 Paul Baca, New Mexico CCR License Number 112, hereby certify  
 7 that I reported the attached proceedings; that pages numbered  
 8 1-20 inclusive, are a true and correct transcript of my  
 9 stenographic notes. On the date I reported these proceedings,  
 10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 26th day of  
 12 June, 2008.

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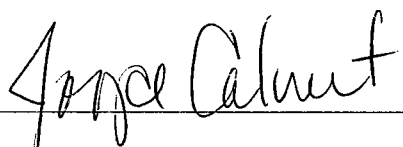
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