

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:

COPY

APPLICATION OF WPX ENERGY
PRODUCTION, LLC FOR COMPULSORY
POOLING AND APPROVAL OF AN
UNORTHODOX WELL LOCATION,
SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 15261

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 22, 2015

Santa Fe, New Mexico

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BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, January 22, 2015, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES
 2 FOR APPLICANT WPX ENERGY PRODUCTION, LLC:
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 7

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1 (8:19 a.m.)

2 EXAMINER JONES: Let's call Case 15261,
3 application of WPX Energy Production, LLC for compulsory
4 pooling and approval of an unorthodox well location, San
5 Juan County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Jordan Kessler for the
8 Applicant. And I have two witnesses today.

9 EXAMINER JONES: Any other appearances?

10 Will the witnesses please stand, and will
11 the court reporter -- state your names.

12 MR. WEST: Brennan Philip West.

13 MS. PICKUP: Barbara Elizabeth Pickup.

14 EXAMINER JONES: Will the court reporter
15 please swear the witnesses?

16 (Mr. West and Ms. Pickup sworn.)

17 MS. KESSLER: And I'd like to call my first
18 witness, please.

19 BRENNAN P. WEST,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 Q. Can you please state your name for the record
25 and tell the Examiners by whom you are employed and in

1 what capacity?

2 A. My name is Brennan Philip West, and I work for
3 WPX as a landman in the San Juan Basin.

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

6 A. Yes, I have.

7 Q. And were your credentials as a petroleum
8 landman accepted and made a matter of public record at
9 that time?

10 A. Yes, they were.

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

13 A. I am.

14 Q. And are you familiar with the status of the
15 lands that are the subject of the application?

16 A. Yes.

17 Q. Has an APD been approved for this well?

18 A. It has.

19 MS. KESSLER: Mr. Examiner, I tender
20 Mr. West as an expert in petroleum land matters.

21 EXAMINER JONES: He is so qualified.

22 MS. KESSLER: Thank you.

23 Q. (BY MS. KESSLER) Mr. West, can you turn to
24 Exhibit Number 1 and identify what WPX seeks under this
25 application?

1 A. We are seeking to create a standard project
2 area of 320 acres consisting of the north half of
3 Section 33, 24 North, 8 West. Additionally, we're
4 looking to apply for an NSL for the Chaco 113H.

5 Q. And do you seek to pool all mineral interests
6 in the Mancos Formation?

7 A. We do.

8 Q. What is the API number for this well?

9 A. It is 30-45-35602.

10 Q. And what pool is involved with this
11 application?

12 A. It's the Basin-Mancos gas pool.

13 Q. And what is the character of the lands that are
14 the subject of this application?

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

16 Q. What is the character of the lands?

17 A. The lands are all federal BLM acreage.

18 Q. If you could turn to WPX Exhibit Number 2. Do
19 special pool rules apply to this location?

20 A. Yes, they do.

21 Q. And is that because this is the Basin-Mancos
22 gas pool?

23 A. It is. So we're required -- or 320 acres
24 spacing and then 660-foot setbacks.

25 Q. This is a standard proration unit because it's

1 320 acres?

2 A. That is correct.

3 Q. But are you seeking a nonstandard location?

4 A. We are.

5 Q. And who are the affected parties for the
6 nonstandard location?

7 A. The affected parties are ConocoPhillips in the
8 north half of Section 32, R&R Royalty in the south half
9 of Section 33 and then Encana in the north half of
10 Section 34, all of 24 North, 8 West.

11 Q. And are these affected parties outlined in blue
12 on Exhibit Number 2?

13 A. Yes, they were.

14 Q. Did you provide notice of this application, of
15 a nonstandard location to the 320-acres parties who are
16 affected?

17 A. We did.

18 Q. And is this notice reflected in a later
19 exhibit?

20 A. It is.

21 Q. If you can turn to Exhibit Number 3, does this
22 exhibit show the ownership of the north half of Section
23 33 by tract?

24 A. It does.

25 Q. What interests do you seek to pool?

1 A. We seek to pool the uncommitted acreage -- or
2 uncommitted party, which is R&R Royalty in this case.

3 Q. And are they a working interest owner?

4 A. They are.

5 Q. And is that highlighted in yellow?

6 A. It is.

7 Q. Is Exhibit Number 4 a well-proposal letter that
8 you sent to R&R Royalty?

9 A. Yes, it is.

10 Q. What is the date of that letter?

11 A. November 19th, 2014.

12 Q. And what additional efforts did you undertake,
13 in addition to sending this letter, to reach a voluntary
14 agreement with R&R Royalty?

15 A. Subsequent to sending this letter, we -- I made
16 multiple phone calls to them and then followed up with
17 an e-mail to which I did not receive any response.

18 Q. Did the well-proposal letter that you sent to
19 R&R also contain an AFE?

20 A. It did.

21 Q. And is this shown as Exhibit Number 5?

22 A. Yes, it is.

23 Q. Are the costs reflected on this AFE consistent
24 with what WPX has incurred for drilling similar
25 horizontal wells in this area?

1 A. It is.

2 Q. What are the typical costs for drilling and
3 producing that you include in a JOA for this area?

4 A. Typically, WPX will lead and negotiate a JOA of
5 10,000 producing and then -- I'm sorry -- 10,000
6 drilling and 1,000 producing.

7 Q. And is that typical for other operators in the
8 Basin area?

9 A. It varies among the parties, but that's pretty
10 much the given range of what we've been seeing lately.

11 Q. Do you understand that the Division typically
12 allocates a lower rate for drilling and producing
13 overhead costs?

14 A. That is my understanding.

15 Q. So what rates are you requesting today?

16 A. I'm seeking to get 7,000 drilling rate and 700
17 producing rate.

18 Q. Do you also ask that these administrative and
19 overhead costs be incorporated into any order resulting
20 from this hearing?

21 A. We do.

22 Q. And do you ask that they be adjusted in
23 accordance with the appropriate accounting procedures?

24 A. Yes.

25 Q. With respect to that uncommitted interest

1 owner, R&R Royalty, do you request that the Division
2 impose a 200 percent risk penalty?

3 A. Yes, we do.

4 Q. And with respect to the unit formation, you
5 mentioned that this 320-acre unit is standard under the
6 Basin-Mancos special pool rules, correct?

7 A. Correct.

8 Q. Okay. So it was not necessary to provide
9 notice to the offset operators for a standard spacing
10 unit?

11 A. That is correct.

12 Q. Were affected parties for the
13 nonstandard location provided notice?

14 A. Yes, they were.

15 Q. Is that reflected in Exhibit Number 6?

16 A. Yes.

17 Q. So Exhibit 6 is an affidavit signed by me and
18 also letters to the pooled party and to the affected
19 parties for the nonstandard location?

20 A. Correct.

21 Q. Was it necessary to publish notice, or were all
22 interests to be pooled locatable?

23 A. We were able to locate all the interests.

24 Q. And were Exhibits 1 through 5 prepared by you
25 or compiled under your direction or supervision?

1 A. Yes, they were.

2 MS. KESSLER: Mr. Examiner, I would move
3 the admission into evidence of WPX Exhibit Numbers 1
4 through 6, which includes my affidavit.

5 EXAMINER JONES: Exhibits 1 through 6 are
6 admitted.

7 (WPX Energy Production, LLC Exhibit Numbers
8 1 through 6 were offered and admitted into
9 evidence.)

10 MS. KESSLER: Thank you.

11 CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. So this is going to be a north half, and
14 already permitted that way through the BLM; is that
15 correct?

16 A. Can you repeat that?

17 Q. Is it permitted as a north-half spacing unit,
18 and do you have any intentions of splitting this up into
19 two stand-ups?

20 A. No, not at this time. We're going to do north
21 half-south half development for this section.

22 Q. So if you change that, you would have to come
23 back to hearing for the compulsory pooling part?

24 A. That's correct.

25 Q. And you said you didn't hear back from R&R at

1 all?

2 A. I called them a few times. They did respond
3 once when they were at a conference, and then they said
4 they'd call me the next week, which I followed up with
5 them; no response. And then I e-mailed them after that
6 and just really, in general, did not get a response back
7 from them.

8 Q. They didn't indicate whether they wanted to
9 sign at all for this well?

10 A. They weren't very responsive to any indications
11 on what their plans were.

12 Q. No reaction to the drilling costs or any of
13 that?

14 A. No. To be honest, I've had earlier
15 discussions, you know, back in the summer, but then once
16 the oil prices crashed, they seemed to be pretty
17 nonresponsive. You know, I think that they figured that
18 we would just go down the force-pooling route.

19 Q. And WPX is willing to go ahead and carry them
20 on this well?

21 A. Yes.

22 Q. But when you sent the notice for nonstandard
23 location, they did sign, correct? They signed that they
24 received it at least?

25 A. Right.

1 Q. Can you tell us the affected 160 spacing units
2 that would have noticed around them for the nonstandard
3 location?

4 A. For the nonstandard location?

5 Q. Yeah. Which directions --

6 A. Well, for 330 feet -- we need to be 660 feet in
7 the Basin Mancos. And if we go to 330 feet, the
8 offsetting spacing unit, whether it's a stand-up or
9 lay-down, we would notify them. A lot of the acreage we
10 own, but in those particular ones that I outlined, there
11 were other parties, and those are parties we noticed.

12 Q. Did you feel a need to notice people in the
13 southwest -- southwest of this spacing unit, or did it
14 not fall under the rules to notify them?

15 A. Which ones?

16 Q. To the southwest of the --

17 A. So you mean the south half of Section 32?

18 Q. Actually, it would be the south half of Section
19 32. Did you --

20 A. Yeah. We own 100 percent of that, but if there
21 was another party in that, we would have noticed them.

22 Q. Well, okay. Okay. I just wanted to ask about
23 that.

24 A. I'm sorry. Let me back up just a second.

25 Since the producing interval did not -- you know, with

1 the Pythagorean theorem for the corner, it did not go to
2 the south half. We would not notice the southwest
3 quarter of Section 32.

4 Q. There you go. That's what I was asking about.

5 A. Okay.

6 Q. And what's the -- what's the OGRID for WPX
7 Energy? Do you know that?

8 A. I'm sorry?

9 Q. Can you look that up? The OGRID?

10 A. Yeah. I can get that for you. I don't know
11 that off the top of my head.

12 MS. KESSLER: Mr. Examiner, I have that.
13 That's something I can provide for you.

14 EXAMINER JONES: Sure, if you have it.

15 MS. KESSLER: I'm sorry. I did speak too
16 soon. Oh, here it is. 120782.

17 Q. (BY EXAMINER JONES) Is this location going to
18 be -- going to fall into the area that may change to
19 Basin-Mancos oil pool -- horizontal oil pool?

20 A. I'm not privy to what those discussions are. I
21 know that there was some talk about it last year, but --

22 Q. Okay. I don't have any more questions.

23 EXAMINER WADE: I don't have any questions.

24 EXAMINER JONES: Thank you very much.

25 THE WITNESS: Thank you, guys.

1 MS. KESSLER: We'd like to call our next
2 witness.

3 BARBARA E. PICKUP,
4 after having been previously sworn under oath, was
5 questioned and testified as follows:

6 DIRECT EXAMINATION

7 BY MS. KESSLER:

8 Q. Can you please state your full name for the
9 record and tell the Examiners by whom you are employed
10 and in what capacity?

11 A. My name is Barbara Elizabeth Pickup. I'm
12 employed by WPX Energy as a senior geoscientist for the
13 San Juan Basin.

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

16 A. No, I have not.

17 Q. Could you please outline your educational
18 background?

19 A. Yes. I received my bachelor of science in 1999
20 from the University of Notre Dame and my master of
21 science in geology in 2001 from Oklahoma State
22 University.

23 Q. What has been your work experience?

24 A. I became a petroleum geologist in 2006. I
25 joined Williams in 2011 in the San Juan Basin, and I

1 have worked in the San Juan Basin since that point
2 except a six-month period when I was on our asset team.

3 Q. And are you a member of any professional
4 associations?

5 A. I am. I'm a member of the American Association
6 of Petroleum Geologists.

7 Q. And are you familiar with the application
8 that's been filed in this case?

9 A. Yes, I am.

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

12 A. Yes, I have.

13 MS. KESSLER: Mr. Examiner, I would tender
14 Ms. Pickup as an expert witness in petroleum geology.

15 EXAMINER JONES: Would you spell your last
16 name?

17 THE WITNESS: P-I-C-K-U-P, just like the
18 truck.

19 EXAMINER JONES: What did you do before
20 2006?

21 THE WITNESS: I worked for the U.S.
22 Geological Survey as a hydrologist.

23 EXAMINER JONES: Oh.

24 THE WITNESS: Then I actually began a Ph.D.
25 I'm a doctoral candidate at the University of Arkansas,

1 and I just need to finish writing a dissertation.

2 EXAMINER JONES: Ms. Pickup is qualified as
3 an expert in petroleum geology.

4 Q. (BY MS. KESSLER) Ms. Pickup, could you please
5 turn to Exhibit Number 7? And identify this exhibit and
6 walk us through it.

7 A. Yes, ma'am. This is a structure map on the top
8 of our projected target interval. On this map, WPX
9 acreage is represented in yellow. In the center of the
10 map is a purple rectangle, and that is the proposed
11 spacing unit.

12 Inside that proposed spacing unit -- I'm
13 sorry; it's fairly faint and fairly difficult to see --
14 is a green line moving from west to east, and that is
15 our proposed horizontal well in this spacing unit. This
16 map is a structure map on the -- as I said, on the top
17 of our target intervals. It's a 20-foot contour
18 interval map that is dipping to the northeast, downdip.
19 Its dip is fairly consistent across the area and
20 especially across our spacing unit.

21 We see no indication of faults or
22 stratigraphic pinch-outs at the formation across the
23 proposed spacing units, so we see no geologic
24 impediments to drilling a horizontal well.

25 Q. And did you say this is a 20-foot contour?

1 A. Yes, ma'am, 20-foot contour interval.

2 Q. If you could turn to Exhibit Number 8, please,
3 the cross-section map.

4 A. Yes.

5 Q. And walk us through this exhibit.

6 A. This is the same map as before just without
7 the -- without the structure on it. So, again, WPX
8 acreage is in yellow. Our proposed spacing unit is the
9 purple rectangle, and our proposed horizontal well is
10 the green line inside the spacing unit. The red line,
11 from A to A prime, is a structural cross section, that
12 we'll see in a moment, running from southwest to
13 northeast, moving downdip.

14 Q. Do you consider the wells shown in the next
15 exhibit that are on the line A to A prime representative
16 of wells in this area?

17 A. Yes, ma'am, I do.

18 Q. If you can turn to Exhibit 9, please, and these
19 are cross sections shown on the previous map, correct?

20 A. Yes, ma'am.

21 Q. Could you identify the formations shown on
22 these cross sections?

23 A. Yes. So, again, this is a structure map -- or
24 a cross section, rather, moving from southwest to
25 northeast, so it's moving down structural dip. And this

1 cross action is zoomed in on the target interval, which
2 is the Mancos interval. So the Mancos is the base of
3 the Mesaverde Formation and -- so the Mancos Formation
4 top and then the Gallup subsection of the Mancos is also
5 shown on this cross section.

6 Our target interval is the top -- the two
7 green lines are the top and base of our target interval.
8 So more specifically, our target in here is the Gallup
9 porous sands within the Mancos interval and is
10 represented -- located based on -- generally, it's
11 spontaneous potential, or SP, signature on an electric
12 log, which is seen in Tract 1, especially on the far
13 right well. And this is the same target or similar
14 stratigraphic target that has been -- that we have
15 drilled in many of the wells in the area.

16 And as you can see from the thickness
17 between the two green lines, there is fairly consistent
18 stratigraphic thickness across the proposed spacing
19 unit.

20 Q. What conclusions have you drawn based on your
21 geologic study?

22 A. First off, I believe there are no geologic
23 impediments to developing this area using a horizontal
24 well. Second, I believe that horizontal -- I've
25 concluded that horizontal drilling will efficiently and

1 economically produce the reservoir and also believe that
2 this unit should, for the most part, contribute equally
3 to the production of the well.

4 Q. And am I correct that WPX is seeking a
5 nonstandard location for this well?

6 A. Yes, we are.

7 Q. Why is WPX requesting that nonstandard
8 location?

9 A. We are requesting 330 setback for this spacing
10 unit and for this well in particular to minimize waste
11 of resources and protect correlative rights of our
12 interest holders.

13 Q. And is the proposed nonstandard location shown
14 on Exhibit 10, the well diagram?

15 A. Yes, it is.

16 Q. In your opinion, will the granting of WPX's
17 application be in the best interest of conservation, for
18 the prevention of waste and for the protection of
19 correlative rights?

20 A. I do [sic].

21 Q. And were Exhibits 7 through 10 prepared by you
22 or compiled under your direction or supervision?

23 A. They were.

24 MS. KESSLER: Mr. Examiner, I'd move the
25 admission of WPX Exhibits 7 through 10.

1 EXAMINER JONES: Exhibits 7 through 10 will
2 be admitted.

3 (WPX Energy Production, LLC Exhibit Numbers
4 7 through 10 were offered and admitted into
5 evidence.)

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 Q. So why -- did you pick the target load zone
9 here?

10 A. Yes.

11 Q. Okay. So why are you going so low in the
12 Mancos?

13 A. Well, this is the interval based on formation
14 tops that might be known by the state. This would be
15 the interval called the Lower Gallup.

16 Q. Oh, okay.

17 A. So, you know, the Upper Gallup -- this is where
18 the -- the historical vertical target existed, and so
19 that target has been targeted in horizontal wells and
20 the porous rocks below. So that's what's represented on
21 here.

22 Q. Okay. So you're going to start at a location.
23 You're going to drill down over into the other section
24 and then --

25 A. Uh-huh.

1 Q. -- turn the well around and come back?

2 A. Right. That's how all of our wells are
3 drilled, for the most part, because you --

4 Q. It costs more to do that.

5 A. Pardon?

6 Q. It costs more to do that.

7 A. Well, it does cost more to do that, but it also
8 allows the lateral to penetrate 330 feet from the
9 section line on one end and TD 330 feet from the section
10 line on the other end, so we get the full section's
11 worth of the producible lateral.

12 Q. So when they frack the well, based on your
13 assumed stress regime, which way you think those fracks
14 are going to go?

15 A. East-northeast -- or north-northeast.

16 Q. North?

17 A. Yeah. The general fracture -- the main stress
18 fracture -- we drilled these wells across the main
19 stress fraction, which is to the east of northeast. So
20 that's why we drill our wells west to east.

21 Q. Okay. And so you might drill another well if
22 this one works out in the north part of the spacing
23 unit?

24 A. Potentially, yes.

25 Q. The 330 is a standard for oil, but we have

1 people requesting exceptions to that all the time in the
2 southeast.

3 A. Uh-huh.

4 Q. So as a geologist, you don't want to get even
5 closer to the boundary?

6 A. Well, I tend to defer to my reservoir engineers
7 to answer a lot of those types of questions, as to frack
8 growth and how far it's moving and the appropriate
9 distance from section lines.

10 Q. What about logging? Are you going to log while
11 drilling?

12 A. Yes. We -- well, we log simply with gamma ray,
13 and that's how we identify where we are in the
14 formation.

15 Q. In a mud log?

16 A. In a mud log, yes. The mud log will help us
17 identify east. There is a very nice correlation, at
18 least from what I have seen, between porosity and gas.
19 So we can identify where we are in the formation,
20 identify the porous sands based on our mud log curve,
21 and then we can identify where we are in the lateral
22 based on our gamma ray.

23 Q. It's one spacing unit, so I won't have to ask
24 you the question about are all spacing units going to
25 contribute to the well or not.

1 EXAMINER JONES: Gabe, do you have any
2 questions?

3 EXAMINER WADE: No questions.

4 EXAMINER JONES: Thank you very much.

5 MS. KESSLER: Thank you, Mr. Examiner.

6 EXAMINER JONES: With that, we'll take case
7 15261 under advisement.

8 (Case Number 15261 concludes, 8:43 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

Oil Conservation Division, Examiner

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

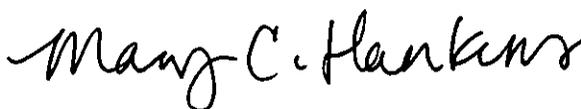
4 CERTIFICATE OF COURT REPORTER

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

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

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

19



20

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
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Date of CCR Expiration: 12/31/2015

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