

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:

ORIGINAL

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

CASE NO. 15275

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 19, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, March 19, 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
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APPEARANCES

FOR APPLICANT WPX ENERGY PRODUCTION, LLC:

JORDAN L. KESSLER, ESQ.
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1 (9:45 a.m.)

2 EXAMINER GOETZE: So next in line, Case
3 15275, application of WPX Energy Production, LLC for
4 compulsory pooling and approval of an unorthodox well
5 location, San Juan County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler
8 with Holland & Hart for the Applicant.

9 EXAMINER GOETZE: Thank you.

10 MS. KESSLER: I have two witnesses,
11 Mr. Examiner.

12 EXAMINER GOETZE: Any other appearances in
13 this case?

14 Very well. Will the witnesses please
15 stand, identify yourself to the reporter and be sworn
16 in?

17 MS. PICKUP: Barbara Pickup, geologist, WPX
18 Energy.

19 MR. BASSETT: Chuck Bassett, staff landman
20 for WPX Energy.

21 (Ms. Pickup and Mr. Bassett sworn.)

22 EXAMINER GOETZE: Continue, ma'am.

23 MS. KESSLER: May I call my first witness?

24 EXAMINER GOETZE: Please.

25

1 CHUCK BASSETT,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MS. KESSLER:

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

9 A. My name is Chuck Bassett, and I'm employed by
10 WPX Energy as a staff landman in the San Juan Basin.

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

13 A. Yes.

14 Q. And were your credentials at that time accepted
15 and made a matter of record?

16 A. Yes.

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

19 A. I am.

20 Q. And are you familiar with the status of the
21 lands that are the subject of this application?

22 A. Yes, I am.

23 MS. KESSLER: Mr. Examiner, I'd tender
24 Mr. Bassett as an expert in petroleum land matters.

25 EXAMINER GOETZE: He is so qualified.

1 Q. (BY MS. KESSLER) Mr. Bassett, can you please
2 turn to WPX Exhibit Number 1? Is this a draft C-102?

3 A. Yes, it is.

4 Q. Will the C-102 be submitted when the APD is
5 filed?

6 A. Yes, it will.

7 Q. Can you please identify what WPX seeks in this
8 C-102?

9 A. Under this application, WPX is seeking a
10 320-acre standard spacing unit comprised of the south
11 half of Section 33, Township 24 North, Range 8 West, San
12 Juan County, New Mexico.

13 Q. Do you seek to pool all the mineral interest
14 owners in the Mancos Formation?

15 A. Yes, we do.

16 Q. And could you identify the pool and pool code
17 that are --

18 A. Basin-Mancos gas pool, Code 97232.

19 Q. What is the character of the lands?

20 A. This is federal acreage.

21 Q. And has the name for this well changed since
22 the well was -- since the application for this pooling
23 was initially submitted?

24 A. Yes, it has.

25 Q. Why is that?

1 A. It was due to an administrative change tied to
2 the surface location.

3 Q. Has the well location remained the same?

4 A. It has.

5 Q. And has the orientation of this spacing unit
6 remained the same?

7 A. It has.

8 Q. So nothing has changed besides changing 121H to
9 120H, correct?

10 A. That's correct.

11 Q. And will the C-102, once submitted, reflect the
12 correct name?

13 A. It will.

14 Q. If you could turn to Exhibit Number 2, could
15 you please identify this exhibit?

16 A. Yes. This is our compulsory pooling exhibit
17 for the 120H. It's the Basin-Mancos [sic] gas pool,
18 which is actually a 660-foot setback and 320-acre
19 spacing. And this is also our -- it highlights the
20 offsets that we noticed.

21 Q. Who are the affected parties -- are you seeking
22 an nonstandard location for this well?

23 A. We are.

24 Q. Who are the affected parties for the
25 nonstandard location?

1 A. We have Energen, JMJ Land & Mineral and R & R
2 Royalty.

3 Q. Did you provide notice of this application to
4 the 320-acre parties who are affected by the nonstandard
5 location?

6 A. We did.

7 Q. And is this notice reflected in a later
8 exhibit?

9 A. It is.

10 Q. Could you turn to Exhibit Number 3? Does this
11 exhibit show ownership of the south half of Section 33
12 by tract?

13 A. It does.

14 Q. And what interests do you seek to pool?

15 A. R & R Royalty. It's highlighted in yellow.
16 They have a 50 percent interest.

17 Q. Are they a working interest owner?

18 A. They are.

19 Q. Turning to Exhibit Number 4, is this a
20 well-proposal letter you sent to R & R?

21 A. Yes, it is.

22 Q. On what date was this letter sent?

23 A. This proposal letter is dated December 12th,
24 2014.

25 Q. What additional efforts did you undertake to

1 reach voluntary agreement with R & R?

2 A. E-mails and phone conversations.

3 Q. If you could turn to Exhibit 5, did the
4 well-proposal letter sent to R & R contain an AFE?

5 A. It did.

6 Q. Are the costs reflected on this AFE consistent
7 with what WPX is getting [sic] for similar wells in the
8 area?

9 A. That's correct. WPX estimates 10,000 a month
10 while drilling, 1,000 per month while producing.
11 However, we're aware that the Division standard is 7,000
12 per month while drilling and 700 while producing, so --
13 so we're asking for the Division standard cost.

14 Q. And this is in reference to the estimated
15 overhead and administrative costs while drilling the
16 well and while producing should you be successful?

17 A. That's true, yes.

18 Q. So just to reiterate, you are asking for \$7,000
19 a month while drilling and 700 a month while producing,
20 correct?

21 A. That's correct.

22 Q. Do you ask that these administrative and
23 overhead costs be incorporated into any order resulting
24 from this hearing?

25 A. Yes.

1 Q. And do you ask as well that it be adjusted in
2 accordance with the appropriate accounting procedures?

3 A. Yes.

4 Q. With respect to the uncommitted interest owner,
5 R & R Royalty, do you request that the Division impose a
6 200 percent risk penalty?

7 A. Yes, we do.

8 Q. With respect to unit formation, the 320-acre
9 spacing unit is standard under the Basin-Mancos special
10 rules, correct?

11 A. Correct.

12 Q. So it was not necessary to provide notice to
13 the offset operators for the standard spacing unit?

14 A. That's correct.

15 Q. But affected parties for the nonstandard
16 location were provided notice of the hearing?

17 A. That's correct.

18 Q. Does Exhibit 6 contain an affidavit, along with
19 letters from my office providing notice both to R & R
20 Royalty and to the affected parties for the nonstandard
21 location of this hearing?

22 A. Yes.

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

25 A. They were all locatable.

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

3 A. They were.

4 MS. KESSLER: Mr. Examiner, I'd move
5 admission into evidence of Exhibits 1 through 6, which
6 includes my affidavit.

7 EXAMINER GOETZE: Exhibits 1 through 6 are
8 so entered.

9 (WPX Energy Exhibit Numbers 1 through 6
10 were offered and admitted into evidence.)

11 EXAMINER GOETZE: Do you have any
12 questions?

13 EXAMINER WADE: (Indicating.)

14 EXAMINER GOETZE: No questions by counsel.

15 CROSS-EXAMINATION

16 BY EXAMINER GOETZE:

17 Q. Let me just get a few clarifications. At this
18 point we do not have an API number for this well?

19 A. That's correct.

20 Q. And is this part of an existing cooperative
21 agreement, unit or anything like that, or is it just --

22 A. No, it's not.

23 Q. -- standard?

24 A. It's standard.

25 Q. Okay. And the only working interest we've

1 identified that is not participating is R & R, and
2 basically that's the only one we're compulsory pooling,
3 correct?

4 A. That's correct.

5 EXAMINER GOETZE: No further questions for
6 this witness, please.

7 THE WITNESS: Thank you.

8 BARBARA PICKUP,

9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MS. KESSLER:

13 Q. Can you please state your name for the record
14 and tell the Examiner by whom you are employed and in
15 what capacity?

16 A. My name is Barbara Pickup. I'm a geoscientist
17 for WPX Energy in the San Juan Basin asset team.

18 Q. Have you previously testified before the
19 Division?

20 A. I have.

21 Q. And were your credentials as a petroleum
22 geologist accepted and made a matter of record?

23 A. They were.

24 Q. Are you familiar with this case?

25 A. Yes, I am.

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

3 A. I have.

4 MS. KESSLER: Mr. Examiner, I tender
5 Ms. Pickup as an expert in petroleum geology.

6 EXAMINER GOETZE: She is so qualified.

7 Q. (BY MS. KESSLER) Ms. Pickup, could you turn to
8 Exhibit 7, please?

9 A. Yes.

10 Q. And if you could identify this exhibit and walk
11 us through it?

12 A. Yes. This is our structure map over the
13 proposed spacing unit. The purple rectangle in the
14 middle of the map is the proposed spacing unit. The
15 horizontal line trending from northwest to southeast
16 inside the purple box is the proposed horizontal well,
17 the 120H. This is a 20-foot contour structure map on
18 the top of our target interval. It is dipping
19 consistently to the northeast. We don't identify any
20 faulting or unconformities across the potential spacing
21 area.

22 Q. Do you believe that the structure is consistent
23 in this proposed spacing unit?

24 A. I do.

25 Q. If you could turn to Exhibit 8 and identify

1 this exhibit.

2 A. Exhibit 8 is identical to the previous exhibit
3 without the structure. Again, the purple boxes are
4 proposed spacing units. The well inside is our proposed
5 horizontal well. The yellow acreage -- I apologize for
6 not identifying that on the previous exhibit -- is WPX
7 acreage. The red line from southwest to northeast is
8 cross-section A to A prime. On the next exhibit, you'll
9 see the structural cross section running through the
10 proposed spacing unit.

11 Q. Do you believe that the wells depicted on A to
12 A prime are representative of the wells in this area?

13 A. I do.

14 Q. If you could turn to Exhibit 9, do these cross
15 sections represent the wells depicted on A to A prime?

16 A. Yes, it does.

17 Q. What have you identified in these cross
18 sections?

19 A. Again, this is a structural cross section
20 running southwest to northeast so structurally moving
21 downdip of our target interval. Our target interval is
22 the Mancos interval, but more specifically, we target
23 the porous sands of the Lower Gallup. They're
24 identified on our electric logs by SP deflection. There
25 are also historical vertical targets in the area.

1 In a thickness sense, the isopach is fairly
2 consistent across the area and its log characteristic is
3 consistent across the area.

4 Q. What conclusions have you drawn based on your
5 geologic study?

6 A. The conclusions I've drawn there are no
7 geologic impediments to developing this area with
8 horizontal wells. The area can be efficiently and
9 economically developed using horizontal wells, and the
10 proposed standard unit will, on average, contribute more
11 or less equally to the production of the well.

12 Q. Has WPX also requested a nonstandard location
13 for this well?

14 A. We have.

15 Q. And that's depicted on Exhibit 10, correct?

16 A. That is correct.

17 Q. So WPX is asking for a 330-foot setback from
18 the outer boundary of the section?

19 A. That is correct.

20 Q. Why is there an NSL?

21 A. To protect correlative rights and make for more
22 efficient production on the reservoir.

23 Q. In your opinion, will the granting of WPX's
24 application be in the best interest of conservation, the
25 prevention of waste and the protection of correlative

1 rights?

2 A. Yes, it will.

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

5 A. They were.

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

8 EXAMINER GOETZE: Exhibits 7 through 10 are
9 so entered.

10 (WPX Energy Exhibit Numbers 7 through 10
11 were offered and admitted into evidence.)

12 MS. KESSLER: That completes my
13 examination.

14 EXAMINER GOETZE: Thank you.
15 Counsel?

16 EXAMINER WADE: I have no questions.

17 CROSS-EXAMINATION

18 BY EXAMINER GOETZE:

19 Q. Let us go to Exhibit Number 8, please.

20 A. Okay.

21 Q. To the south of you, we've got the Chaco and
22 Hero wells?

23 A. Yes.

24 Q. Those are also WPX?

25 A. They are operated by WPX, yes.

1 Q. In respect of looking at -- for instance, there
2 seems to be a system of drilling. What I'm trying to
3 get at is with regards to Section 33, are there any
4 future plans with regards to in-filling to the north?

5 A. Yes. There will be an in-fill well to the
6 north.

7 Q. And in the south half of 33, is there any
8 anticipated addition of the second well in the south
9 half?

10 A. No. At this time we're only anticipating this
11 one well in the south half of the south half. There
12 will be two wells in the south half of the section,
13 but --

14 Q. Okay. That's what I wanted.

15 A. Right.

16 Q. So there will be an additional well in the
17 south half?

18 A. Yes. Correct.

19 Q. And would you comment on your production in
20 Section 4? Has it been what you've predicted or --

21 A. It's been average for the wells in the area.

22 Q. Okay. Nothing spectacular?

23 A. Nothing spectacular, but there are some very
24 good wells in the vicinity, whether drilled by us or
25 other companies.

1 Q. It's still worthwhile to go ahead and do this,
2 the extension to the north?

3 A. Absolutely. Absolutely.

4 EXAMINER GOETZE: I have no further
5 questions for this witness.

6 Thank you.

7 MS. KESSLER: Thank you.

8 EXAMINER GOETZE: No more? Then we will go
9 ahead and take Case 15275 under advisement.

10 (Case Number 15275 concludes, 10:00 a.m.)

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

_____, Examiner
Oil Conservation Division

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



21

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2015

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