

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:)

CASE NO. 13,766

APPLICATION OF WILLIAMS PRODUCTION)
 COMPANY FOR TWO NONSTANDARD SPACING)
 UNITS, SAN JUAN COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

September 14th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, September 14th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

2006 SEP 28 AM 8 50

I N D E X

September 14th, 2006
Examiner Hearing
CASE NO. 13,766

| | PAGE |
|-------------------------------------|------|
| EXHIBITS | 3 |
| APPEARANCES | 3 |
| APPLICANT'S WITNESS: | |
| <u>VERN HANSEN</u> (Landman) | |
| Direct Examination by Ms. Munds-Dry | 4 |
| Examination by Examiner Jones | 12 |
| REPORTER'S CERTIFICATE | 17 |

* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------------|----------|
| Exhibit 1 | 7 | 11 |
| Exhibit 2 | 8 | 11 |
| Exhibit 3 | (does not exist) | |
| Exhibit 4 | 11 | 11 |

* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 9:12 a.m.:

3 EXAMINER JONES: Okay, at this time let's call
4 Case 13,766, Application of Williams Production Company for
5 two nonstandard spacing units, San Juan County, New Mexico.
6 Call for appearances.

7 MS. MUNDS-DRY: Good morning, Mr. Hearing
8 Examiner. My name is Ocean Munds-Dry with the law firm of
9 Holland and Hart, here representing Williams Production
10 Company, LLC, this morning, and I have one witness.

11 EXAMINER JONES: Any other appearances?
12 Will the witness please stand to be sworn?
13 (Thereupon, the witness was sworn.)

14 VERN HANSEN,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MS. MUNDS-DRY:

19 Q. Please state your name for the record.

20 A. Vern Hansen.

21 Q. Mr. Hansen, where do you reside?

22 A. Tulsa, Oklahoma.

23 Q. And by whom are you employed?

24 A. By Williams.

25 Q. And in what capacity?

1 A. I am currently staff landman.

2 Q. Have you previously testified before the
3 Division?

4 A. No, I have not.

5 Q. Would you please review your work experience for
6 Mr. Jones?

7 A. From 1982 to 1986 I worked for Donald C. Slosson
8 oil producer in Amarillo, Texas, three years as a
9 geological technician, one year in their lease records
10 department.

11 And from January, 1987, to the present I've been
12 with Williams.

13 Q. And are you familiar with the Application that's
14 been filed on behalf of Williams in this case?

15 A. Yes.

16 Q. Are you familiar with the status of the lands in
17 this subject portion of the Basin-Dakota Gas Pool?

18 A. Yes, I am.

19 MS. MUNDS-DRY: We would tender Mr. Hansen as an
20 expert petroleum landman.

21 EXAMINER JONES: Mr. Hansen, did you have to move
22 from Salt Lake to Tulsa?

23 THE WITNESS: Yes, I did.

24 EXAMINER JONES: Mr. Hansen is qualified as an
25 expert landman.

1 Q. (By Ms. Munds-Dry) Mr. Hansen, would you briefly
2 summarize what Williams seeks with this Application?

3 A. We would like to create two spacing units to
4 match -- in the Basin-Dakota Gas Pool, to match the current
5 Mesaverde spacing units.

6 Q. And could you explain for the Examiner why
7 Williams needs these nonstandard units?

8 A. It's to conform to the current spacing units of
9 Mesaverde, and we plan to drill -- currently plan to do two
10 Mesaverde dual wells in one of the spacing units. We would
11 like to keep the lands within the boundaries of the Cox
12 Canyon Unit. And also for efficient production of Dakota
13 reserves.

14 Q. Mr. Hansen, do you know what spacing and acreage
15 dedication rules govern the development of the Basin-Dakota
16 Gas Pool?

17 A. Currently special pool rules and regulations
18 for the Basin-Dakota Gas Pool are under Order Number
19 R-10,987-B, which is effective January 29th, 2002. We're
20 currently under 320-acre spacing, which would comprise any
21 two contiguous quarter sections.

22 Q. Thank you, Mr. Hansen. Do you know if the
23 special pool rules for this Basin-Dakota Gas Pool authorize
24 the Division to administratively approve these nonstandard
25 units in this circumstance?

1 A. There is no provision for administrative approval
2 for these units in the Basin-Dakota Gas Pool.

3 MS. MUNDS-DRY: Mr. Jones, I would interrupt
4 briefly. I believe Mr. Hall would like to be involved in
5 this case.

6 EXAMINER JONES: Okay, Mr. Hall, would you like
7 to --

8 MR. HALL: I would. Sorry for the delay, Mr.
9 Examiner.

10 Mr. Examiner, Scott Hall of Miller Stratvert, PA,
11 appearing on behalf of Great Western Drilling Company. No
12 witnesses this morning.

13 Q. (By Ms. Munds-Dry) Pardon that, Mr. Hansen.
14 We'll continue.

15 Would you please, then, refer to what's been
16 marked as Williams Exhibit Number 1? Do you have a set of
17 exhibits with you?

18 A. Yes, I do. This is Order R-784, which was --

19 Q. Is the date --

20 A. -- approved -- I'm sorry, January -- or, I'm
21 sorry, the 16th day of April, 1956. And this is for the
22 establishment of a proration unit consisting of lots 1 and
23 2, the south half of the southeast of Section 8 and the
24 east half of the east half of Section 17.

25 Q. And that was for the Mesaverde Gas Pool?

1 A. Yes, it was.

2 Q. What is the third page of Exhibit Number 1?

3 A. The third page is Administrative Order NWU-162,
4 which establishes the proration unit for the Mesaverde,
5 consisting of the east half of the west half and the west
6 half of the east half of Section 17 of 32 North, 11 West.

7 Q. Thank you, Mr. Hansen. Would you please turn to
8 what's been marked as Williams Exhibit Number 2 and
9 identify and review that for the Examiner?

10 A. This is a map or a plat which shows the outline
11 of the Cox Canyon Unit, and it also shows the two
12 nonstandard proration units which we are applying for,
13 which are hached. The one in Section 8 and the east half
14 of the east half of 17 is hached in green, and then the one
15 in east half of the west half and the west half of the east
16 half of Section 17 is hached in orange.

17 And then there is also the nonstandard proration
18 unit currently existing for the Mesaverde, which Great
19 Western operates, consisting of the west half of Section 17
20 and the west half -- the west half of Section 8 and the
21 west half of the west half of Section 17.

22 Q. And does this also show Williams' current plans
23 for two proposed wells in the Section 17 --

24 A. Yes, we are currently planning to drill two
25 Mesaverde-Dakota dually completed wells. We eventually are

1 planning to go and commingle them.

2 Q. Could this formation, the Basin-Dakota, be
3 produced on a stand-alone basis?

4 A. We do not believe it can. The Dakota production
5 in this area is not very spectacular, to put it mildly.
6 This is somewhat of an exploratory project, and we have a
7 handful of wells that we are planning to drill in the
8 Dakota.

9 We've already drilled two, I believe, maybe
10 three, in this area.

11 Q. So you're going to drill these wells and see how
12 they do?

13 A. Yes.

14 Q. Would you please turn to Exhibit Number 4? As
15 you've shown on the map here, I believe there are other
16 interest owners that have been excluded from the proposed
17 unit; is that right?

18 A. Yes, that would be Great Western Drilling?

19 Q. And did we give notice to Great Western pursuant
20 to Rule -- to the Division Rules?

21 A. Yes, we did.

22 Q. Is it your understanding that we've reached
23 agreement with Great Western regarding the development of
24 these spacing units?

25 A. Yes, we've agreed to execute waivers, then for

1 ours and ours for theirs, if they wish to establish their
2 Dakota proration unit.

3 Q. And at this point, then, is it your understanding
4 that we've agreed in principle, we're just waiting on
5 execution --

6 A. Yes.

7 Q. -- of the waiver letter?

8 How does -- How will approval of this Application
9 affect the correlative rights in the area?

10 A. We believe it protects the correlative rights of
11 the parties, although we don't have -- due to the existence
12 of the Mesaverde participating area within the Cox Canyon
13 Unit, and this being on a stand-alone drillblock basis, the
14 ownership is not identical for the two formations. The
15 working interest owners are the same in both Mesaverde and
16 the Dakota in this case, but the percentages are slightly
17 different, and the royalties and overrides would be
18 different also.

19 If there is further development of the Dakota
20 within the area, then a participating area perhaps would be
21 established, and then you would have similar or identical
22 ownership if the entire unit was brought into the Dakota.

23 Q. Mr. Hansen, will approval of this Application
24 prevent waste?

25 A. Yes, we believe that if we did not -- if we had

1 to move the locations or if we did not have these approved,
2 we would not drill the Dakota. They do not fly on a stand-
3 alone basis.

4 Q. And just to clarify, is Exhibit Number 4 a notice
5 affidavit indicating that notice was given in accordance
6 with Oil Conservation Division Rules?

7 A. Yes, it was.

8 Q. And does Exhibit Number 4 also include the notice
9 letter that was sent to Great Western along with the green
10 card showing the received notice?

11 A. Yes, it does.

12 Q. Were Exhibits 1 through -- 1, 2 and 4, because
13 we're missing Exhibit Number 3, either prepared by you or
14 prepared under your direction and supervision?

15 A. Yes, they were.

16 MS. MUNDS-DRY: Mr. Jones, we would move the
17 admission of Exhibit Number 1, 2 and 4 into evidence.

18 EXAMINER JONES: Any objection?

19 MR. HALL: No objection.

20 MS. MUNDS-DRY: And that concludes my direct
21 testimony of Mr. Hansen.

22 EXAMINER JONES: Exhibits 1, 2 and 4 will be
23 admitted into evidence.

24 MR. HALL: I have no questions, Mr. Examiner.

25 EXAMINER JONES: No questions?

EXAMINATION

BY EXAMINER JONES:

Q. Well, Mr. Hansen, the Mesaverde proration units are pretty weird compared to what we normally approve. Are they in effect still, they have still active producing wells on them?

A. Yes, the Cox Canyon Unit is fully developed.

As far as the lands, the entire Mesaverde formation is within -- I mean the entire unit is within the participating area of the Cox Canyon Unit, and we are currently fully developing it on 80s in the Mesaverde, and it is highly productive, prolific in the Mesaverde.

Q. So there is active wells on these proration units that hold them in place?

A. Yes, there is. If you look at the Exhibit for the Cox Canyon Unit, you can see that the Cox Canyon Unit is a very oddly shaped unit also; it cuts through several sections, Sections 8, 17, 20 and 28.

And when we end up with these proration units that cross the boundaries of the unit, it is very difficult from an administrative standpoint, accountingwise, to keep the interests straight, especially when you have participating areas which change and you have the drillblock basis on the non-unit side, which remains the same.

1 But we're trying to keep it -- you know, although
2 we have other areas within the unit where we do cross the
3 unit boundaries, we would like to keep it within the unit
4 itself for the administrative purposes of...

5 Q. Okay, is any of this Indian lands?

6 A. No, it's not. Federal and state.

7 Q. Okay. I thought I had another question, but I
8 guess I don't so...

9 Oh, I guess I would ask, what geologic reason was
10 there to form this, or was it a land reason back in 1956?

11 A. I don't know. I think what happened is, they --
12 And I'm just guessing. They had formed the Cox Canyon
13 Unit, and those parties who wish to commit their interest
14 to the unit created it, and that's what created the odd
15 shape.

16 And I remember seeing through some correspondence
17 that Great Western had originally filed the application for
18 their spacing unit prior to us filing our Application for
19 the two within the Cox Canyon Units, and I think that's
20 what prompted it.

21 Q. Okay. I see the logic in -- You have to drill
22 the wells for both formations; is that correct?

23 A. Yes.

24 Q. And so you want the proration unit to be the same
25 for both pools, but who in your opinion is affected by

1 this? Who should be the noticed parties, and were they all
2 noticed?

3 A. Just Great Western. We're granted the authority
4 under the Cox Canyon Unit agreement to act on behalf of the
5 working interest owners and the committed royalty and
6 overriding royalties, and that is in Article 8 of the unit
7 agreement itself, which has been approved by the Bureau of
8 Land Management, the Oil Conservation Division and the
9 State Land Office.

10 Q. Okay. The spacing unit that encompasses part of
11 the east half of Section 8 has an offsetting spacing unit
12 up in -- I guess Section 23 of 32-11.

13 A. The State of Colorado.

14 Q. Oh, okay, that's Colorado?

15 A. Yes, it is.

16 Q. Oh, okay. Do you know who those people are up
17 there?

18 A. No, I don't.

19 Q. They would have -- Do you know how the Dakota is
20 spaced up there?

21 A. The Dakota on -- Yes, I do. The Dakota is --
22 there's -- the Dakota is 640-acre spacing in Colorado, and
23 then those sections, they're partial sections that border
24 the township, the Dakota is the full section, and they're
25 roughly 400 -- 400 or 500 acres in size.

1 Q. How many wells do they allow?

2 A. Currently they allow in the Dakota -- oh, I
3 believe they only allow four wells per 640. It's not on 80
4 density yet.

5 EXAMINER JONES: Okay, that's all I have.

6 Okay, we have nothing further.

7 Do you have nothing further in this?

8 MS. MUNDS-DRY: Nothing further.

9 MR. HALL: Make a brief comment, Mr. Examiner, on
10 behalf of Great Western Drilling Company.

11 Great Western supports Williams' Application
12 here.

13 Great Western owns and operates the west-half
14 equivalent of combined Sections 17 and 8. They have a
15 federally approved communitization agreement for the
16 Mesaverde, and they anticipate coming before the Division,
17 asking for similar relief for the Dakota, and based on the
18 understanding that both Williams and Great Western will
19 provide reciprocal waivers of objections we're going
20 forward on that basis.

21 So again we support the Application.

22 EXAMINER JONES: Okay. Thank you, Mr. Hall.
23 Thank you, Ms. Munds-Dry. And thank you, Mr. Hansen.

24 MS. MUNDS-DRY: Thank you, Mr. Examiner.

25 EXAMINER JONES: With that, we'll take Case

1 13,766 under advisement.

2 (Thereupon, these proceedings were concluded at
3 9:29 a.m.)

4 * * *

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

19 _____, Examiner
20 Oil Conservation Division
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 15th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006