

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 APPROVAL
OF THE NORTHWEST LYBROOK UNIT;
CREATION OF A NEW POOL FOR
HORIZONTAL DEVELOPMENT WITHIN
THE UNIT AREA, AND FOR ALLOWANCE
OF 33-FOOT SETBACKS FROM THE
EXTERIOR OF THE PROPOSED UNIT,
RIO ARriba AND SAN JUAN COUNTIES,
NEW MEXICO.

CASE NO. 15201

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 18, 2014

Santa Fe, New Mexico

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BEFORE: SCOTT DAWSON, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, September 18, 2014, 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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APPEARANCES

FOR APPLICANT WPX ENERGY PRODUCTION, LLC:

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EXHIBITS OFFERED AND ADMITTED

WPX Energy Production, LLC Exhibit Numbers 1 through 5	12
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1 (1:57 p.m.)

2 EXAMINER DAWSON: Okay. Good afternoon,
3 ladies and gentlemen. Today is September 18th. We are
4 located in Porter Hall, Wendell Chino Building, at 1220
5 South St. Francis, Santa Fe. My name is Scott Dawson.
6 I'm the Hearing Examiner for today's case and the deputy
7 director of the Oil Conservation Division.

8 To my left is Gabriel Wade. He's general
9 counsel for EMNRD, Energy, Minerals and Natural
10 Resources Department, and representing the Oil
11 Conservation Division.

12 EXAMINER WADE: I got a little promotion
13 there. I'm assistant general counsel.

14 (Laughter.)

15 EXAMINER DAWSON: Yeah. You're assistant
16 general counsel.

17 Today we are present to hear Case 15201,
18 which is an application of WPX Energy Production, LLC
19 for approval of the Northwest Lybrook Unit, creation of
20 a new pool for horizontal well development within the
21 unit area, and for allowance of 330-foot setbacks from
22 the exterior of the proposed unit, Rio Arriba and San
23 Juan Counties, New Mexico.

24 I have had a chance to read the draft
25 order -- I'm sorry -- the application and exhibits --

1 presented application for Case 15201, and at this time
2 I'm going to ask for appearances and witnesses.

3 MS. GERHOLT: Mr. Examiner, Gabrielle
4 Gerholt, with the Santa Fe office of Holland & Hart, on
5 behalf of WPX Energy. With me I have two witnesses,
6 Mr. Chuck Bassett and Amy Richardson.

7 EXAMINER DAWSON: Could you repeat Chuck's
8 last name?

9 MS. GERHOLT: Bassett, B-A-S-S-E-T-T.

10 EXAMINER DAWSON: And Amy Richardson?

11 MS. GERHOLT: Yes, sir.

12 EXAMINER DAWSON: Is there anyone else
13 wanting to make an appearance in this case?

14 Thank you.

15 Okay. You can go ahead and swear in the
16 witnesses.

17 (Mr. Bassett and Ms. Richardson sworn.)

18 EXAMINER DAWSON: Call your first witness.

19 MS. GERHOLT: Thank you. I'd call
20 Mr. Bassett to the stand.

21 CHUCK BASSETT,

22 after having been previously sworn under oath, was
23 questioned and testified as follows:

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DIRECT EXAMINATION

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BY MS. GERHOLT:

Q. Please state your full name for the record.

A. Chuck Bassett.

Q. By whom are you employed and in what capacity?

A. I'm work for WPX Energy as a landman in the San Juan Basin.

Q. Have you previously testified before the Oil Conservation Division?

A. I have.

Q. At that time were you qualified as an expert in petroleum land matters?

A. I was.

MS. GERHOLT: Mr. Examiner, I would request that Mr. Bassett be accepted as an expert witness in petroleum land matters in this case.

EXAMINER DAWSON: He is so admitted.

Q. (BY MS. GERHOLT) Mr. Bassett, would you please turn to Exhibit Number 1? Please identify the exhibit.

A. This is the exhibit to our Northwest Lybrook Federal Unit, Tank 2000, two acres more or less. It's in the Lybrook-Gallup Oil Pool, Basin-Mancos Gas Pool, in San Juan and Rio Arriba Counties, New Mexico.

Q. Very good.

And are you familiar with the application

1 in this case?

2 A. I am.

3 Q. What are the three things WPX is requesting?

4 A. WPX is seeking approval of the Northwest
5 Lybrook, undivided Federal Exploratory Unit, the
6 creation of a pool for horizontal development within the
7 pool and 330-foot setbacks from the outer boundary of
8 the unit.

9 Q. Does WPX expect to primarily produce oil within
10 the unit?

11 A. Yes.

12 Q. And is that why WPX is asking for 330-foot
13 setbacks?

14 A. That's correct.

15 Q. If you would now turn to Exhibit 2, what is the
16 Exhibit Number 2?

17 A. Exhibit 2 is the unit agreement of the
18 Northwest Lybrook Unit area.

19 Q. Does this conform to the federal form?

20 A. There are two exceptions. One is specifically
21 for horizontal development, and it is a single
22 participating area.

23 Q. Is this unit an undivided unit?

24 A. It is.

25 Q. Can you identify for the Examiners how

1 production will be allocated within the unit agreement?

2 A. Production's going to be equally distributed on
3 an acreage basis from the tracts within the unit, and
4 that is in paragraph 11 of the unit agreement.

5 Q. If I can now have you turn to Exhibit B to the
6 unit agreement, which appears to not have been included,
7 unfortunately. But is Exhibit B the leases that are
8 dedicated to the unit?

9 A. It is.

10 Q. And about how many leases are involved in this
11 acreage?

12 A. There are 12 leases in the unit -- in the
13 proposed unit.

14 Q. If I can now draw your attention to Exhibit 6,
15 is this the type log that is used for the unit?

16 A. It is.

17 Q. Is there any unleased acreage within the unit
18 boundary?

19 A. There is not.

20 Q. Does WPX hold all the interest in these leases?

21 A. There's one other working interest owner. SFS
22 Production, LLC has 1.1111 percent interest.

23 Q. And have they agreed to participate in the
24 unit?

25 A. They have.

1 Q. Are any allotted lands in the unit?

2 A. Yes.

3 Q. Who administers allotted leases?

4 A. The Federal -- the Federal Indian Minerals
5 Office in Farmington.

6 Q. And is the Federal Indian Minerals Office also
7 known as FIMO?

8 A. That's correct.

9 Q. Will FIMO be a signatory to this agreement?

10 A. They will.

11 Q. Will the Bureau of Land Management be a
12 signatory?

13 A. They will.

14 Q. And what about the State Land Office?

15 A. As well.

16 Q. Have you met with members of the State Land
17 Office?

18 A. I have met with members of the State Land
19 Office.

20 Q. Do you recall with whom you met?

21 A. Pete Martinez, Jones and others.

22 Q. And what did you discuss during the course of
23 that meeting?

24 A. We discussed unit boundaries, plans of
25 development.

1 Q. Have you received a preliminary approval letter
2 from the State Land Office?

3 A. We have.

4 Q. Is that set forth in Exhibit 3?

5 A. Yes.

6 Q. Mr. Bassett, if I can turn your attention to
7 Exhibit 3B, it is a single piece of paper. Would you
8 please identify that for the record?

9 A. This is the preapproval letter from the Bureau
10 of Land Management for the Northwest Lybrook Unit.

11 Q. When you met with the Bureau of Land
12 Management, what was the nature of those discussions?

13 A. It was to discuss unit boundaries and our plan
14 of development.

15 Q. Has FIMO been made aware of those plans?

16 A. Yes, they have.

17 Q. And does this preliminary approval letter
18 include the Federal Indian Minerals Office?

19 A. It does. And they are cc'd on the bottom, left
20 corner as well on the preapproval letter.

21 Q. In your discussion with these various agencies,
22 have they requested WPX drill an obligation well?

23 A. They have agreed to allow our Chaco Number 143H
24 well to count as the initial well.

25 Q. And is that the well identified within the unit

1 agreement?

2 A. It is.

3 Q. And is the well currently producing?

4 A. It is.

5 Q. In addition to meeting with and discussing the
6 unit with the BLM, FIMO and the State Land Office, has
7 WPX undertaken efforts to notify all the allottee
8 interest owners within the unit owner?

9 A. Yes, we have.

10 Q. Based upon your review of the records,
11 approximately how many allottee interest owners are
12 within this unitized area?

13 A. 211, more or less. I think it's 211.

14 Q. And were you able to locate addresses for all
15 of these allottee interest owners?

16 A. We were not.

17 Q. What efforts did you undertake to locate
18 addresses for these allottee interest owners?

19 A. We had our brokers do Internet searches.

20 Q. Is that where you began, or did you have --

21 A. It is not. We used the title status reports
22 provided by FIMO to locate the addresses. If they're
23 not on the title status reports, then we try to find
24 them. We use other methods to find them.

25 Q. In your opinion as a landman, is the best

1 source of the information for these allottee owners from
2 FIMO?

3 A. Yes.

4 Q. Would you please identify Exhibit 4 for the
5 Examiners?

6 Let me ask it a different way. Did you
7 have my office present notice to offset operators,
8 working owners and the Indian allottee mineral interest
9 owners?

10 A. Yes.

11 Q. Does Exhibit 4 reflect the parties to whom
12 notice was sent?

13 A. It does.

14 Q. Drawing your attention now to Exhibit Number 5,
15 would you please identify this for the record?

16 A. Exhibit 5 is the Affidavit of Publication in
17 the Rio Rancho Observer or the Daily Times publication.
18 And I guess --

19 Q. Was notice also published in the Rio Grande Sun
20 for Rio Arriba County?

21 A. Yes, it was.

22 Q. Were Exhibits 1 through 3 prepared by you or
23 compiled under your direction or supervision?

24 A. Yes, they were.

25 MS. GERHOLT: Mr. Examiner, at this time I

1 would move the admission of WPX Exhibits 1 through 5
2 into evidence, which includes my Notice of Affidavit, as
3 well as the Affidavit of Publications. And that would
4 conclude my examination of this witness.

5 EXAMINER WADE: Did you say there was
6 supposed to be a 2B?

7 MS. GERHOLT: We will provide that to you.
8 I apologize that it wasn't in there, but we will provide
9 that to you.

10 EXAMINER DAWSON: It's Exhibit B of the
11 unit agreement and also the breakdown on the acres --

12 MS. GERHOLT: Yes, sir.

13 EXAMINER DAWSON: -- the recapitulation?

14 MS. GERHOLT: Yes, sir. I apologize it
15 wasn't in there right now.

16 EXAMINER DAWSON: There is one question I
17 wanted to ask.

18 We will move Exhibits 1 through 5 into the
19 record. They're so accepted.

20 (WPX Energy Production Exhibit Numbers 1
21 through 5 were offered and admitted into
22 evidence.)

23 CROSS-EXAMINATION

24 BY EXAMINER DAWSON:

25 Q. I did have just a couple of questions. The

1 Chaco 143H well --

2 A. Yes, sir.

3 Q. -- that has been drilled and is producing, when
4 was that completed? Do you know the completion date?

5 A. November 18, 2013.

6 Q. So you want to make the unit agreement
7 effective November 18th --

8 A. That's correct.

9 Q. -- 2013?

10 A. That's correct.

11 Q. Did you discuss that with the State Land Office
12 and BLM?

13 A. We did.

14 Q. And they were okay with that?

15 A. Yes, sir.

16 Q. What about FIMO; did you discuss it with them?

17 A. FIMO has been made aware of that, yes.

18 Q. Another question: You say there are 211
19 allottees that you had identified within the unit area?

20 A. Yes, sir.

21 Q. Do you have an idea how many of those allottees
22 you were able to contact of 211?

23 A. Well, we sent notice out to them, and they
24 contact me. I think -- I'm sure most got their notice.
25 I don't know how many cards we got back.

1 MS. GERHOLT: Mr. Examiner, you will notice
2 in Exhibit Number 4, the return cards, so those were all
3 the returns that we received. And in addition, WPX has
4 provided notice to the allottees as a courtesy. It's
5 not a federal or -- it's not a federal requirement that
6 they do this. It's just in the goal of being more
7 transparent and allowing the allottees to know what is
8 occurring with their mineral interests.

9 EXAMINER DAWSON: I have no further
10 questions. Thank you.

11 MS. GERHOLT: Mr. Examiner, may this
12 witness be excused?

13 EXAMINER DAWSON: He sure may.

14 THE WITNESS: Thank you..

15 EXAMINER DAWSON: You may call your next
16 witness.

17 MS. GERHOLT: Thank you. I would call
18 Ms. Richardson to the stand.

19 AMY RICHARDSON,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MS. GERHOLT:

24 Q. Good afternoon, Ms. Richardson.

25 A. Good afternoon.

1 Q. Would you please state your full name for the
2 record?

3 A. My name is Amy Richardson.

4 Q. By whom are you employed and in what capacity?

5 A. I'm employed by WPX Energy as the geology
6 manager for the San Juan and Marcellus assets.

7 Q. How long have you been a geologist with WPX?

8 A. I've been there about two-and-a-half years.

9 Q. Regarding the San Juan Basin, what have your
10 responsibilities been?

11 A. I've worked as a geologist for the San Juan
12 Basin my entire time at WPX, and currently I oversee all
13 the geologic needs, operational and otherwise, for the
14 assets.

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

17 A. I have.

18 Q. And at that time, were your credentials as an
19 expert in petroleum geology accepted and made a matter
20 of public record?

21 A. They were.

22 Q. And are you familiar with the application filed
23 in this case?

24 A. I am.

25 Q. Have you conducted a geologic study of the area

1 in question?

2 A. I have.

3 MS. GERHOLT: Mr. Examiner, I would tender
4 Ms. Richardson as an expert witness in petroleum
5 geology.

6 EXAMINER DAWSON: She is so admitted.

7 Q. (BY MS. GERHOLT) Ms. Richardson, are you
8 familiar with the Northwest Lybrook Unit?

9 A. I am.

10 Q. I would like to draw your attention to Exhibit
11 6. Would you please identify this for the Examiners and
12 describe what we're looking at?

13 A. This is the well we submitted as a type log for
14 the unit -- or the interval we'd like to have unitized
15 in the Northwest Lybrook Unit. This well is not
16 actually in the unit, but it is very close by, was
17 chosen because it does penetrate the entire interval.
18 And the unit interval we would like is from the top of
19 the Mancos to the top of the Greenhorn limestone.

20 Q. Is this the same type log that was utilized in
21 Exhibit C to the agreement?

22 A. Yes, it is.

23 Q. In your opinion, does the horizon identified on
24 Exhibit 6 extend across the unitized area?

25 A. Yes. I believe it does.

1 Q. Have you brought along with you structure maps
2 and cross sections to support this conclusion?

3 A. I have.

4 Q. Drawing your attention to Exhibit 7, would you
5 please identify this exhibit and explain to us what it
6 shows?

7 A. This is a structure map at the top of the
8 Mancos with a 25-foot contour interval, and you can see
9 the regional structure as we are dipping down to the
10 northeast and up to the southwest.

11 Q. What do the blue lines represent?

12 A. The north-south line is -- it's not labeled. I
13 apologize. That's the county boundary of Rio Arriba to
14 the east and San Juan to the west. The other two blue
15 lines are indicating the cross sections that are later
16 exhibits and A to A prime, a long strike, and B to B
17 prime, roughly a long dip.

18 Q. And, Ms. Richardson, one final question: Is
19 the Chaco 143H identified on this exhibit?

20 A. It is in this -- it is on this map. It's the
21 horizontal well that's in Section 36. The type is quite
22 small, but it's Chaco 2408-36P Number 143H, and that's
23 the only horizontal well now existing in the unit.

24 Q. If I could now draw your attention to Exhibit
25 8. Is this the cross section that corresponds with the

1 wells A to A prime?

2 A. It is. And, again, this extends through the
3 unit area well on the -- well on the left-hand side and
4 west of the unit, and it again extends through that
5 entire unitized Mancos to the Greenhorn. As you go
6 across the unit, that interval is very similar.

7 Q. What are these pink boxes on the logs?

8 A. Those just indicate where those wells were
9 perforated and completed.

10 Q. Is there anything else that you would like to
11 identify for the Examiners on this exhibit?

12 A. No. I don't believe so.

13 Q. Turning to Exhibit Number 9, does this
14 correspond to the cross section B to B prime?

15 A. Yes, it does.

16 Q. What does this exhibit show us?

17 A. This is a cross section. The well on the
18 left-hand side is the Federal-34 43. It's just the same
19 well we used as the type log, again just outside the
20 unit boundary. The well inside the unit doesn't extend
21 quite all the way to the Greenhorn, but you can see the
22 Mancos-Gallup interval is penetrated again similar
23 across the unit, and the same sands are completed in the
24 rest of the wells.

25 Q. Ms. Richardson, based upon the cross section

1 and the structure evidence that you provided, is the
2 interval that WPX seeks to unitize continuous across the
3 area?

4 A. Yes, I believe so.

5 Q. In your opinion, are there any faults,
6 pinch-outs or other geologic impediments that would
7 prevent this acreage from contributing to the overall
8 production of the interval?

9 A. No. I don't see any significant changes that
10 would cause a problem.

11 Q. Can this unitized area, in your opinion, be
12 effectively and efficiently developed --

13 A. I believe it would be.

14 Q. Changing gears, are you familiar with the pools
15 currently in existence within the proposed unit area?

16 A. I am.

17 Q. Would you turn to Exhibit 10? What is Exhibit
18 10?

19 A. Exhibit 10 is just a map with the Gallup pools
20 that are in existence outlined and labeled in different
21 colors. Our Northwest Lybrook Unit is outlined in a
22 dark red. And within those unit boundaries, we've
23 shaded the Lybrook-Gallup pool in orange and then the
24 Basin-Mancos pool in red. The Basin-Mancos extends
25 through San Juan and Rio Arriba Counties, filling in

1 sort of the gaps between the existing Gallup pools.

2 Q. Are the reservoir fluids consistent between the
3 Lybrook-Gallup and the Basin-Mancos in this area?

4 A. Yes, they would be.

5 Q. Does that mean they are compatible?

6 A. Yes.

7 Q. Is WPX expecting the wells drilled within this
8 area to be oil wells?

9 A. We are.

10 Q. And are the technical characteristics of the
11 hydrocarbons within the current pools that are in this
12 unit area essentially identical?

13 A. Yes. We have found drilling wells in this area
14 across about five different townships that are oil.
15 Average API value is about 40, and the average gas value
16 is about 1350 BTU for standard cubic feet. So we
17 believe, again, that the hydrocarbons across this whole
18 area seem very consistent.

19 Q. Ms. Richardson, in regards to this unit area,
20 are the pools within the same vertical horizon?

21 A. They are very similar. The Basin-Mancos, I
22 believe, is defined from the top of the Mancos to the
23 base of the Greenhorn. The Lybrook-Gallup pool is not
24 defined, but all of the wells within the pool are
25 completed between the top of the Mancos and the top of

1 the Greenhorn. So, again, it's the same interval.

2 Q. And will the pressure gradients be relatively
3 the same within the unitized area?

4 A. Yes.

5 Q. Will a cross flow be an issue within the
6 unitized area?

7 A. No.

8 Q. Will the combination of the Lybrook-Gallup and
9 the Basin-Mancos into one single pool for purposes of
10 horizontal well development within this unit area result
11 in any waste or loss of reserves?

12 A. No. I don't believe so.

13 Q. In your opinion, will WPX's application to
14 create a new pool within the unit horizontal development
15 prevent waste?

16 A. Yes.

17 Q. In your opinion, is it in the best interest of
18 conservation and the prevention of waste to create a
19 single pool for horizontal development within this
20 proposed unit area?

21 A. Yes, I believe so.

22 Q. Were WPX Exhibits 7 through 10 prepared by you
23 or compiled under your direction or supervision?

24 A. They were.

25 MS. GERHOLT: Mr. Examiner, I would move

1 the admission of Exhibits 7 through 10 into evidence at
2 this time.

3 EXAMINER DAWSON: Exhibits 7 through 10
4 will be so admitted.

5 MS. GERHOLT: Mr. Examiner, that concludes
6 my presentation of this witness.

7 EXAMINER DAWSON: Okay.

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

11 EXAMINER DAWSON: I just have a few
12 questions.

13 CROSS-EXAMINATION

14 BY EXAMINER DAWSON:

15 Q. Looking at that 143H well --

16 A. Yes.

17 Q. -- it looks like the path on that well was in
18 the east half of the southeast of 36, of 24 North, 8
19 West?

20 A. Yeah. The surface location of that lateral was
21 drilled from -- was south of the lateral in the
22 southeast quarter of the section, and so the vertical
23 curved portion of the well we drilled north and then
24 west. And the lateral -- if you -- if you look at this
25 last map, there is a small, kind of, black dot and then

1 a green dot. That's actually the completed lateral
2 interval.

3 Q. That's what I was going to ask. That small
4 black dot on the east, kind of the far -- where it
5 starts tracking west --

6 A. Uh-huh.

7 Q. -- that's the start of your completion
8 interval, right?

9 A. Right. That was the base of our curve in our
10 7-inch casing point, yeah. We completed west of that.

11 Q. And that is a legal setback?

12 A. Yes. Yes.

13 Q. Do you anticipate -- does WPX anticipate
14 landing dual laterals within the Gallup in this area?

15 A. Not at this time. We have one primary target
16 right now. There are other potential targets within the
17 Mancos-Gallup. As we gather more data and, you know, as
18 economic situations change, maybe economics -- but at
19 this time we're only looking at one primary target.

20 Q. Okay. I have no further questions. Thank you
21 very much.

22 THE WITNESS: Thank you.

23 MS. GERHOLT: Mr. Examiner, that concludes
24 the presentation of this case on behalf of WPX. We will
25 be submitting to you at the end of the day Exhibit B to

1 the unit agreement.

2 EXAMINER DAWSON: Thank you.

3 Can I ask you to please provide a draft
4 proposed order within two weeks, which is October 2nd,
5 2014?

6 MS. GERHOLT: Yes, sir.

7 EXAMINER DAWSON: And this case will be
8 taken under advisement, and that concludes today's
9 hearing for 15201. Thank you very much.

10 MS. GERHOLT: Thank you.

11 (Case Number 15201 concludes, 2:23 p.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 _____.

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

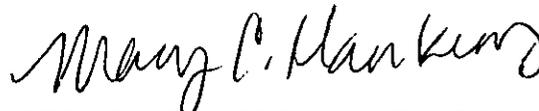
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, 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 that were reduced to printed form by me to the best of my ability.

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

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 case.



MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014