

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:

APPLICATION OF WPX ENERGY
PRODUCTION, LLC FOR APPROVAL
OF THE SOUTH ESCAVADA UNIT AND
FOR ALLOWANCES OF 330-FOOT
SETBACKS FROM THE EXTERIOR OF
THE PROPOSED UNIT, SANDOVAL
COUNTY, NEW MEXICO. CASE NO. 15645

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 16, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, March 16, 2017, 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.

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APPEARANCES

FOR APPLICANT WPX ENERGY PRODUCTION, LLC:

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ALSO PRESENT: Mr. Vincent Chee, Audience
Member/Allottee

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1 (8:48 a.m.)

2 EXAMINER JONES: Let's call Case Number
3 15645, application of WPX Energy Production, LLC for
4 approval of the South Escavada Unit and for allowance of
5 330-foot setbacks from the exterior of the proposed
6 unit, Sandoval County, New Mexico.

7 Call for appearances.

8 MS. KESSLER: Mr. Examiners, Jordan
9 Kessler, from Holland & Hart, on behalf of the
10 Applicant.

11 MR. HALL: Mr. Examiners, Scott Hall,
12 Montgomery & Andrews, Santa Fe, appearing on behalf of
13 Bison Oil & Gas II, Roman numeral II, LLC. No
14 witnesses.

15 EXAMINER JONES: No witnesses?

16 Any other appearances?

17 Okay. Will the witnesses please stand?

18 (Mr. Silvestri and Mr. Gates sworn.)

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

22 DIRECT EXAMINATION

23 BY MS. KESSLER:

24 **Q. Could you please state your name for the record**
25 **and tell the Examiner by whom you're employed and in**

1 **what capacity?**

2 A. Tony Silvestri. I'm employed by WPX Energy as
3 a senior staff manager.

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

6 A. No.

7 **Q. Can you please review your educational**
8 **background?**

9 A. TC graduate, '81, from the business school.

10 **Q. And what has your work experience been since**
11 **that time?**

12 A. Since then, I've been a field landman for a
13 number of years. I worked in various basins, mineral
14 research, leasing, oil and gas leases, title curative,
15 for a number of major oil companies and independent oil
16 companies.

17 In addition to that, I was a landman for
18 Texaco for a number of years putting oil and gas
19 drilling units together, directing lease acquisition and
20 curative and also acquiring and selling producing and
21 nonproducing properties.

22 For the last 25 years, I've been with
23 Williams, both -- and WPX, a Williams oil and gas
24 subsidiary, and been involved as director of
25 acquisitions and divestitures, managed our producing

1 assets in Coleman and Barnett, and now working in the
2 San Juan Basin acquiring oil and gas leases and putting
3 federal units together.

4 **Q. And you stated that your experience and**
5 **responsibilities at WPX includes the San Juan Basin; is**
6 **that correct?**

7 A. Yes.

8 **Q. Are you a member of any professional**
9 **organizations?**

10 A. Yes, the Tulsa Association of Petroleum
11 Landmen, the American Association of Petroleum Landmen,
12 San Juan Landmen's Association, a member in good
13 standing.

14 **Q. Are you familiar with the application that's**
15 **been filed in this case?**

16 A. I am.

17 **Q. And are you familiar with the status of the**
18 **lands in the proposed unit area?**

19 A. Yes.

20 MS. KESSLER: Mr. Examiners, I would tender
21 Mr. Silvestri as an expert in petroleum land matters.

22 EXAMINER JONES: Any objection?

23 MR. HALL: No objection.

24 EXAMINER JONES: Do you remember Ronnie
25 O'Dwyer with Texaco?

1 THE WITNESS: I do know that name, yes.
2 It's been a while.

3 EXAMINER JONES: Mr. Silvestri is qualified
4 as an expert in petroleum land matters.

5 Q. (BY MS. KESSLER) Mr. Silvestri, please turn to
6 Exhibit 1 and identify this for the Examiners.

7 A. It's the boundary of the South Escavada Unit.

8 Q. By this application is WPX requesting approval
9 of the South Escavada Unit and approval of 330-foot
10 setbacks from the outer boundary of the unit area?

11 A. Yes.

12 Q. And this is a voluntary exploratory unit,
13 correct?

14 A. Yes.

15 Q. Comprised of approximately 4,723 acres?

16 A. Yes.

17 Q. And is this federal and allotted lands?

18 A. Yes.

19 Q. And it is located in Sandoval County, correct?

20 A. Yes.

21 Q. What pool are we in here?

22 A. Well, you're partially in the Rusty Gallup Oil
23 Pool.

24 Q. And it's a wildcat area for the rest of the
25 pool; is that correct?

1 A. Yes.

2 Q. Does WPX expect to primarily produce oil from
3 this unit?

4 A. Yes.

5 Q. And the Rusty Gallup is a frozen pool; is that
6 correct?

7 A. Yes.

8 Q. And the Basin Mancos special rules pursuant to
9 R-1294 do not extend into that portion of Sandoval
10 County?

11 A. Correct.

12 Q. And you're seeking 330-foot setbacks? Is that
13 also correct?

14 A. Yes.

15 Q. Let's look at Exhibit 2. What is this exhibit?

16 A. It's a unit agreement for the South Escavada
17 Unit.

18 Q. Does this conform with the federal form?

19 A. It does.

20 Q. And there are two exceptions, is that correct,
21 for horizontal development, and you're treating this
22 area as a single participating area?

23 A. Correct.

24 Q. Would this be treated as a single project area
25 pursuant to Division rules?

1 A. Yes.

2 **Q. And can you please identify -- it's explained**
3 **in paragraph 11. Can you please identify how allocation**
4 **production will be allocated within this unit?**

5 A. It will be allocated equally across the unit as
6 to the mineral leaseholds bearers [sic] and into the
7 entire unit.

8 **Q. What is Tab A?**

9 A. That's the boundary, again, of the South
10 Escavada Unit indicating the federal and allotted lands.

11 **Q. And that's Exhibit A to the unit agreement,**
12 **correct?**

13 A. Yes.

14 **Q. Approximately what percent federal and what**
15 **percent allotted is this unit?**

16 A. Federal lands, approximately 28 percent and
17 allotted lands, 71 percent.

18 **Q. Is there any unleased acreage?**

19 A. There is not.

20 **Q. Does WPX hold all of the interests in these**
21 **leases?**

22 A. No.

23 **Q. Who are the other working interest owners?**

24 A. WPX does own -- controls 98 percent of the
25 working interests in the leases, and the balance is

1 owned by Chevron, EV Properties, PITCo, Stanley Singer,
2 Queenstown, White Tiger, Andrea Singer Pollack Trust and
3 Andrea Singer Pollock Revocable Trust.

4 **Q. Have the other working interest owners agreed**
5 **to participate in the unit?**

6 A. No, not yet.

7 **Q. Been in contact with those interest owners?**

8 A. We have. We anticipate they'll either
9 participate in the unit and/or WPX will acquire their
10 interest.

11 **Q. What is Tab B?**

12 A. It's a breakdown of ownership within the South
13 Escavada Unit.

14 **Q. This was Exhibit B to the unit agreement,**
15 **correct?**

16 A. Yes.

17 **Q. What is Exhibit C?**

18 A. Exhibit C?

19 **Q. Tab C.**

20 A. Ah. That is the Mancos section to unitize the
21 South Escavada Unit.

22 **Q. And it was Exhibit C to the unit agreement?**

23 A. Yes.

24 **Q. You previously stated that there are Indian**
25 **allotted leases within the unit area?**

1 A. Yes.

2 Q. Who administers those leases?

3 A. FIMO.

4 Q. And will FIMO provide final approval --

5 A. Yes.

6 Q. Will the BLM also provide final approval?

7 A. Yes.

8 Q. Turning to Exhibit 3, did you meet with the BLM
9 and FIMO to discuss this unit?

10 A. Yes.

11 Q. When you met with them, did they indicate their
12 preliminary letter include FIMO?

13 A. Yes, they did.

14 Q. And is Exhibit 3 a preliminary approval from
15 the BLM?

16 A. Yes.

17 Q. And cc'd on the bottom to FIMO, correct?

18 A. It is, yes.

19 EXAMINER JONES: I'm sorry. Is it Exhibit
20 3?

21 MS. KESSLER: Exhibit 3.

22 Q. (BY MS. KESSLER) In your discussions with the
23 BLM and FIMO, did you discuss the nature of the unitized
24 area and the development plans?

25 A. Yes.

1 Q. Did the BLM request that WPX drill an
2 obligation well?

3 A. Yes.

4 Q. If you turn to Exhibit 4, is this a copy of the
5 development plan that you submitted to the BLM and FIMO?

6 A. Yes.

7 Q. Can you please identify the obligation well for
8 the Examiners?

9 A. WPX Well Number 361H over there on the eastern
10 side of the unit.

11 Q. And do you plan to drill this well within six
12 months for final approval of the unit?

13 A. Yes.

14 Q. In addition to the BLM and FIMO, did WPX
15 undertake efforts to notify the allottees of the
16 application?

17 A. Yes.

18 Q. Approximately how many allottees were there?

19 A. Between 500 and 600.

20 Q. And did you have an address for each of these
21 owners?

22 A. Yes.

23 Q. Those addresses were provided by FIMO; is that
24 correct?

25 A. Yes.

1 **Q. Were all allottee interest owners of record**
2 **identified by FIMO provided timely notice of this**
3 **hearing?**

4 A. Yes.

5 **Q. Is Exhibit 5 an affidavit prepared by my office**
6 **with attached letters providing notice to the allottees?**

7 A. Yes.

8 MS. KESSLER: And, Mr. Examiners, if you
9 flip to the very end of this exhibit, you'll see
10 tracking numbers for all of the allottees.

11 **Q. (BY MS. KESSLER) In addition to notice of this**
12 **hearing, did you provide an invitation for information**
13 **at an informal meeting to the allottees in Farmington?**

14 A. Yes, we did.

15 **Q. When did that occur?**

16 A. This past Tuesday.

17 **Q. What was the nature of that meeting?**

18 A. It was to give an overview of the South
19 Escavada Unit, the benefits of the unit and the unit
20 approval process and also to answer any questions they
21 had at the meeting.

22 **Q. Approximately how many allottees showed up?**

23 A. Between 70 and 80.

24 **Q. Does Exhibit 5 also provide notice and a copy**
25 **of the application, a copy of the unit agreement to the**

1 working interest owners, overriding royalty interest
2 owners and the offset parties?

3 A. Yes.

4 Q. And a list of all of these interest owners is
5 contained on pages 2 and 3 of this exhibit, correct?

6 A. Yes.

7 Q. Is Exhibit 6 a copy of Affidavit of Publication
8 directed to allottee interest owners?

9 A. Yes.

10 Q. Were Exhibits 1 through 4 prepared by you or
11 compiled under your direction and supervision?

12 A. Yes.

13 MS. KESSLER: Mr. Examiners, I move
14 admission of Exhibits 1 through 6, which include my two
15 affidavits.

16 EXAMINER JONES: Any objection?

17 MR. HALL: No objection.

18 EXAMINER JONES: Exhibits 1 through 6 are
19 admitted.

20 (WPX Energy Production, LLC Exhibit Numbers
21 1 through 6 are offered and admitted into
22 evidence.)

23 EXAMINER BROOKS: No questions.

24

25

CROSS-EXAMINATION

1

2 BY EXAMINER JONES:

3 Q. Exhibit 6 is the affidavit, and can you repeat
4 what you probably just said about why this was posted in
5 the paper?

6 MS. KESSLER: Mr. Examiner, if you look at
7 Exhibit 5, we sent notice letters to all allottees,
8 overrides, working interest owners and offsets, and we
9 anticipated that not all of those green cards would
10 necessarily come back. So some of them were indeed
11 returned. But the affidavit on page -- on Exhibit 6
12 does include all of those --

13 EXAMINER JONES: So it was just in
14 anticipation that you might not get them back?

15 MS. KESSLER: That's correct.

16 Q. (BY EXAMINER JONES) So you've just got one
17 lease that's basically the -- is that true? The west
18 half of the southeast quarter of 23 is your lease with
19 all your other working interest owners in it?

20 A. Yes, that's correct.

21 Q. And can you explain the shape of this unit and
22 why it was formed this way from a land perspective?

23 A. Well, one, availability of leases to acquire.
24 Two, there is an Encana unit, the Alamosa Unit, to the
25 north of this unit, and we have our North Escavada Unit

1 on the northwest of this unit. So this was the next
2 unit, as development moves to the south, that we were
3 able to put together. As you can see, a lot were
4 allotted leases and the federal leases that were in the
5 area.

6 **Q. Okay.**

7 MS. KESSLER: Mr. Examiner, I would also
8 point you to the -- to Exhibit 1, and if you take a look
9 at the north half of 22, I have just one more question
10 for Mr. Silvestri.

11 REDIRECT EXAMINATION

12 BY MS. KESSLER:

13 **Q. Mr. Silvestri, the north half of 22 is unleased**
14 **allotted lease?**

15 A. That's correct. Yes. The -- yeah. The --
16 yes. Correct.

17 **Q. And did WPX attempt to obtain that lease?**

18 A. We are making efforts to obtain it, yes.

19 RECROSS EXAMINATION

20 BY EXAMINER JONES:

21 **Q. So can you -- if you do obtain that lease, can**
22 **you obtain -- can you have -- what do the land people**
23 **call it when they sign up later for this --**

24 A. What we would attempt to do if we acquired that
25 is expand the unit to take in that lease.

1 Q. Expand it.

2 So currently, though, since it's -- an all
3 PA unit; is that correct?

4 A. A unitwide participation area, yes.

5 Q. Unitwide PA.

6 So it needs to be one pool pretty much, and
7 it needs to be -- so if you allocate everything to the
8 way it is from the get-go here and then you add some
9 acreage to it, how do you -- what do you do there? Do
10 you just go from that point forward to dilute the
11 original people, or do you go back in time and adjust
12 things?

13 A. Well, hopefully we would acquire this prior to
14 drilling the 360.

15 Q. Okay. So it's not drilled yet?

16 A. It is not.

17 Q. Okay. Okay. So your -- basically your
18 effective date -- make sure I have that -- is still
19 not -- you don't really have to have a -- you don't have
20 an effective date yet because you don't have that well
21 drilled?

22 A. I think the effective date -- we'll have six
23 months to drill the initial test well after the unit's
24 fully approved, and I think we've got a pretty high
25 level of confidence to be able to acquire that unleased

1 allotment in the northeast of 22 prior to that -- prior
2 to that time.

3 Q. Okay. What if that didn't happen? How would
4 you do -- how would you adjust it?

5 A. The development would look like the development
6 that was in Exhibit --

7 MS. KESSLER: 4.

8 THE WITNESS: -- 4.

9 Q. (BY EXAMINER JONES) Okay. But then if you add
10 that north half later, how would you -- accounting-wise,
11 how would you handle that?

12 A. You mean if we were already producing and
13 expanded?

14 Q. Yeah. Yeah.

15 A. I haven't had that happen to a unit I've been
16 responsible for yet, but I believe there is some
17 retroactive accounting that might be contemplated, but
18 I'm not sure about that. But whatever the protocol for
19 that, I'm sure we'll run that to ground and observe it.

20 Q. Yeah. Okay.

21 Okay. Now, does it say in here about these
22 resource units? Does it say about the business about
23 all PAs, or what paragraph is that in?

24 A. In the unit agreement?

25 Q. It probably says everybody will participate --

1 **yeah -- in the unit agreement? I think I ask this every**
2 **time, and I always forget every time. It's here**
3 **somewhere.**

4 EXAMINER BROOKS: I think it's 11.

5 MS. KESSLER: That's correct,
6 **Mr. Examiners.**

7 EXAMINER JONES: 11? Okay. "Allocation
8 **and Production."**

9 Okay. And a horizontal well is -- they've
10 gone back and started redefining it as 100 feet in the
11 objective formation now so it's consistent with OCD
12 rules until they're changed again.

13 EXAMINER BROOKS: Where is that?

14 EXAMINER JONES: That's the very first
15 page, right up here, somewhere up there (indicating).
16 Right there (indicating).

17 EXAMINER BROOKS: Oh, okay. Yeah. I've
18 seen some of them at 1,000 feet and some of them at 100.

19 EXAMINER JONES: Yeah.

20 **Q. (BY EXAMINER JONES) And it's in the Mancos**
21 **Shale Group, and you're going to have a geologist talk**
22 **about that later.**

23 A. Yes.

24 **Q. And as far as the leases go, are they -- do**
25 **they have a segregation clause in the leases? How are**

1 **the leases handled for --**

2 A. These -- these federal leases, if they are
3 bifurcated, there is a segregation process here. And
4 these leases I think have been producing for quite some
5 time. And I cannot tell you right now what -- you know,
6 the nature of what's been segregated, but if there is a
7 new lease that's going to be bifurcated, it will create
8 a segregation.

9 Q. Okay. So WPX will be the operator of the unit.

10 And as far as contraction -- potential
11 contraction, you know, is that in here? Do you know
12 where the paragraph is on that? Sometimes they say that
13 the AO can -- if all the drilling requirements are not
14 met or if the plan of developments are not met, they
15 would do a --

16 A. My understanding is -- as far as contraction, I
17 haven't had a unit that's gone through that process, but
18 the initial well is drilled. If that unit is deemed to
19 be commercial, there is a commerciality letter put forth
20 out there. And then, I believe, within a year after
21 that letter has been put out, there is an annual plan of
22 development that's submitted to the AO for approval.
23 And I couldn't tell you right now if the plan of
24 development -- you know, there is some point in time it
25 stops developing if the unit is contracted or not, but

1 we can be happy to get back to you on that question.

2 Q. Oh, no. That's fine on that. That's just -- I
3 think it's kind of -- they kind of leave that to review
4 and to planned development requirements. But they had
5 said that they were putting more of those contraction
6 clauses into these units, and that's kind of why I asked
7 the question.

8 MS. KESSLER: Mr. Examiner, just to jump
9 in, I believe those are the units down in the southeast,
10 the resource development units. That language is not in
11 this unit agreement.

12 EXAMINER JONES: Okay. Okay.

13 Q. (BY EXAMINER JONES) How about surface --
14 surface impacts here? You're going to have a geologist
15 later, right?

16 MS. KESSLER: (Indicating.)

17 EXAMINER JONES: But you're not going to
18 have a surface person or a facilities person or anybody
19 like that?

20 Q. (BY EXAMINER JONES) So do you handle the
21 surface land also?

22 A. Actually, our regulatory group -- no, to answer
23 your question. Our regulatory group handles the surface
24 matters out here.

25 Q. Have you been told where the gathering system

1 **would be or --**

2 A. We have a preliminary idea of how we're going
3 to bring the gathering system across this acreage, and
4 we also have a preliminary idea of the surface
5 locations, whether the surface locations are going to be
6 on or off lease and the multiple wells drilled from
7 those surface locations. But we, obviously, want to
8 observe, you know, where we can site in a location by
9 doing on-sites with the BLM to make sure that any
10 archeological matters are addressed and avoided.

11 **Q. Okay. So just the mere fact of having the BLM**
12 **involved, because they're a surface -- they take care of**
13 **surface, cultural and --**

14 A. They do, yes.

15 **Q. -- and environmental issues also?**

16 **And the horizontal wells will lessen the**
17 **impact of --**

18 A. Definitely.

19 **Q. -- surface disturbance?**

20 A. Some of these leases may have no surface
21 occupancy, so we'd obviously, you know, move those
22 locations to where we can get a spot.

23 **Q. Okay. Now, the pool -- I notice this Rusty**
24 **Gallup Pool is a 330-setback pool; is that correct?**

25 MS. KESSLER: Correct.

1 EXAMINER JONES: And it covers portions the
2 western side of this unit. And the rest of it is
3 wildcat, you said.

4 MS. KESSLER: (Indicating.)

5 EXAMINER JONES: Wildcat is 330 setbacks
6 also, but --

7 MS. KESSLER: Out of an abundance of
8 caution, we requested the 330-foot setbacks.

9 EXAMINER JONES: That's one of the main
10 reasons you're here today is the 330.

11 MS. KESSLER: Right. We don't think the
12 Basin-Mancos pool extends at all into this area. I
13 think if you look at it, it's one small portion of
14 Sandoval County, the northern end. So I don't think
15 that there is any idea that the Basin-Mancos gas pooling
16 extends this far down, but out of an abundance of
17 caution, we did request 330-foot setbacks.

18 EXAMINER JONES: Okay. Because our
19 geologist usually takes care of the expansions of the
20 pools as the drilling happens, but in the case of this
21 unit, where you really need one pool to cover the unit
22 to handle the PA -- you know, all the PA so the
23 accounting can all be done correctly. So I guess our
24 geologist just needs to understand that any pool that
25 was assigned to wells drilled in this needs to be Rusty

1 Gallup. But you didn't really apply for that here, to
2 expand the Rusty Gallup in anticipation of drilling, so
3 we'll just -- we'll just address that in the order.

4 MS. KESSLER: Yeah. I think that can be
5 addressed by the district office. We did not request an
6 expansion of the Rusty Gallup. We're mostly concerned
7 with the 330-foot setbacks.

8 EXAMINER BROOKS: I thought you said the
9 Rusty Gallup Pool was frozen.

10 MS. KESSLER: It is frozen.

11 EXAMINER BROOKS: Then it would take an
12 order to unfreeze it; would it not?

13 MS. KESSLER: We're not requesting that the
14 pools -- or the wells necessarily be placed in the Rusty
15 Gallup.

16 EXAMINER BROOKS: So you're not requesting
17 the creation of a new pool, though?

18 MS. KESSLER: No.

19 EXAMINER JONES: Not at this point, but
20 they could --

21 MS. KESSLER: Not at this point.

22 EXAMINER JONES: When they drill the well,
23 they'll address it at that point.

24 EXAMINER BROOKS: So you do not see it as
25 being a problem that part of the pool -- part of the

1 area is in Rusty Gallup and part of it will presume to
2 be in some new pool that will be created because the
3 Rusty Gallup is frozen, right?

4 EXAMINER JONES: You could handle that
5 later with a simple nomenclature hearing.

6 MS. KESSLER: If necessary.

7 EXAMINER JONES: If necessary.

8 EXAMINER BROOKS: Okay.

9 EXAMINER JONES: Hopefully it will be
10 necessary because you'll be successful on your drilling.

11 I'm sorry, Scott Hall.

12 MR. HALL: I don't have any questions.

13 CROSS-EXAMINATION

14 BY EXAMINER BROOKS:

15 Q. Is the 361H -- is that the obligation well? Is
16 it going to be the obligation well?

17 A. Yes.

18 Q. Is it going to be drilled generally where it's
19 shown on Exhibit 4?

20 A. Yes. I think it'll be spud on the southeast
21 and then drilled in the direction on the northwest.

22 Q. Okay. So the only thing you're really asking
23 for here is the 330 setbacks, which are already
24 provided?

25 MS. KESSLER: And approval of the unit

1 agreement.

2 EXAMINER BROOKS: Yeah. Well, now, there
3 is no state land in this unit, right?

4 MS. KESSLER: No. That's correct.

5 EXAMINER BROOKS: And no fee land?

6 MS. KESSLER: Correct.

7 EXAMINER BROOKS: So our approval is
8 probably not necessary.

9 EXAMINER JONES: We had debates about this.

10 EXAMINER BROOKS: Yeah. I'm unsure under
11 what provision of any law or rule it would be necessary
12 to have our approval on a unit that has no state or fee
13 land.

14 EXAMINER JONES: But the BLM has no public
15 forum; is that correct?

16 EXAMINER BROOKS: Well, I suppose that's
17 generally true, although the BLM personnel hold hearings
18 occasionally for various purposes. But that's, I
19 guess -- we haven't generally done it in the past, but
20 there have been several instances recently, so I'm a
21 little confused at this point.

22 MS. KESSLER: If the Division takes a
23 position on whether approval is necessary or not --
24 (laughter).

25 EXAMINER BROOKS: Well, someone asked me

1 that question, and I told them I thought it was not
2 necessary. But apparently, other people in the Division
3 have given different answers to that question. I do not
4 know under what law or regulation it would be necessary.
5 Unit approval has always been a confusing area as to
6 whether it really exists or not.

7 Okay. Thank you.

8 EXAMINER JONES: Thanks, Mr. Silvestri.

9 THE WITNESS: You're welcome.

10 TREVOR GATES,
11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MS. KESSLER:

15 **Q. Please state your name for the record and tell**
16 **the Examiners by whom you are employed and in what**
17 **capacity.**

18 A. I'm Trevor Gates, geologist with WPX in the San
19 Juan Basin.

20 **Q. Have you previously testified before the**
21 **Division?**

22 A. Yes.

23 **Q. Were your credentials as a petroleum**
24 **geoscientist accepted and made a matter of record?**

25 A. Yes.

1 **Q. Are you familiar with the application filed in**
2 **this case?**

3 A. I am.

4 **Q. Have you conducted a geologic study of the**
5 **lands within the unit area?**

6 A. Yes, I did.

7 MS. KESSLER: Mr. Examiner, I tender
8 Mr. Gates as an expert in petroleum geoscience.

9 MR. HALL: No objection.

10 EXAMINER JONES: He is so qualified.

11 **Q. (BY MS. KESSLER) Mr. Gates, please turn to**
12 **Exhibit 7. Are you familiar with the interval being**
13 **unitized in the South Escavada Unit?**

14 A. Yes, I am.

15 **Q. Is Exhibit 7 a type log showing the unitized**
16 **interval?**

17 A. Yes. It is a type log showing the interval
18 starting at the Mancos to the Point Lookout and going to
19 the top of the Graneros.

20 **Q. What is the name of this?**

21 A. It's the Sandoval 1-23 in Section 23 of 22
22 North, 7 West.

23 **Q. And this is the same log that was used as**
24 **Exhibit C for the unit agreement?**

25 A. Yes.

1 **Q. What interval is it that WPX would like**
2 **unitized?**

3 A. The entire Mancos interval.

4 **Q. And is that definition provided more**
5 **specifically in the unit agreement?**

6 A. Yeah. It's shown on the type log,
7 stratigraphic -- on this type log from 3,715, top of the
8 Mancos, down to 5,575, which is the top of the Graneros.

9 **Q. In your opinion, does this horizon extend**
10 **across the unitized area?**

11 A. Yes.

12 **Q. Is Exhibit 8 a structure map of the unit area?**

13 A. Yes. So this is a structure map on the top of
14 the Mancos Formation. I'm just kind of showing a
15 general dip -- down-dip to the northeast, and it's
16 pretty consistent across the unit. Our proposed unit's
17 outlined in red, and I've just shown the other two
18 existing WPX units on this map as well.

19 **Q. What have you identified in the unit area based**
20 **on the structure map?**

21 A. What have I identified?

22 **Q. Have you seen any geologic hazards? What do**
23 **you see with respect to the dip?**

24 A. No, no geologic hazards, no pinch-outs, nothing
25 like that. And the other thing the map shows is the two

1 cross sections coming up F to F prime more on strike
2 than E to E prime, which is going down-dip.

3 **Q. What is Exhibit 9?**

4 A. So Exhibit 9 would be that E to E prime cross
5 section going down-dip, and again just showing the top
6 of the Mancos to the base of the Point Lookout and down
7 to the top of the Graneros, showing a general -- pretty
8 consistent thickness across the unit in that direction.

9 **Q. What is Exhibit 10?**

10 A. Exhibit 10 would be the other cross section,
11 which is more on strike perpendicular to the last one
12 and just showing that interval of consistent thickness
13 across the direction.

14 **Q. In your opinion, does the interval that WPX**
15 **seeks to unitize, is it continuous across the area?**

16 A. Yes, it is.

17 **Q. And have you observed any evidence of faults,**
18 **pinch-outs or any other geologic impediments that would**
19 **prevent the acreage from contributing to the overall**
20 **production from the interval?**

21 A. No, I have not.

22 **Q. In your opinion, can the unitized area be**
23 **firmly and economically developed under the unit plan?**

24 A. Yes.

25 **Q. Were Exhibits 7 through 10 prepared by you or**

1 **compiled under your direction and supervision?**

2 A. They were.

3 MS. KESSLER: Mr. Examiners, I move
4 admission of Exhibits 7 through 10.

5 EXAMINER JONES: Any objection?

6 MR. HALL: No objection.

7 EXAMINER JONES: Exhibits 7 through 10 are
8 admitted.

9 (WPX Energy Production LLC Exhibit umbers 7
10 through 10 are offered and admitted into
11 evidence.)

12 EXAMINER JONES: Mr. Hall?

13 MR. HALL: I have no questions.

14 EXAMINER JONES: Okay.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 **Q. So what's different about the Mancos as you**
18 **move south into Sandoval County?**

19 A. I mean, not a whole lot of difference. The
20 porosity changes slightly in our interval. When we
21 target the Gallup, the main target out there, the
22 porosities might change a little bit. The thicknesses
23 might change a little bit. But overall, it's the same
24 interval, and it should be productive.

25 **Q. Is it deeper?**

1 A. I mean, if you go back to the structure map --

2 Q. Or is it rolling over and getting deeper?

3 A. I mean, everything is generally getting deeper
4 to the northeast, you can see. So --

5 Q. Okay. So you're down below what was defined --
6 as what Steve Hayden [phonetic] envisioned as being
7 Mancos.

8 Basically, your target that you will go
9 for, where is that going to be?

10 A. It's the Gallup sands, which, on the type log,
11 pretty much shows up -- I'm looking at the last cross
12 section. That red curve on the left is your SP, pretty
13 flat through the shales and kind of kicks out when you
14 get to the more porous sands. That's the Gallup
15 interval there.

16 Q. Okay. Kicks to the left; is that correct?

17 A. Yeah.

18 Q. In that unconformity they always talk about, is
19 that --

20 A. That's right within that interval.

21 Q. Okay. It's kind of close into that interval?

22 A. Uh-huh.

23 Q. Okay. Okay. But are there any vertical wells
24 around here in the Gallup?

25 A. The vertical wells that go this deep are pretty

1 much shown on the cross section. A lot of the drilling
2 that's gone on over there has been more shallow. The
3 Chacra gas wells haven't been that deep.

4 **Q. The wells, though, that you're showing, are**
5 **they completed in the Gallup sands --**

6 A. Yeah.

7 **Q. -- vertically?**

8 A. You can see this one here, the National Fed
9 [sic;phonetic] perms down in the Gallup, probably a
10 vertical test, and then we've got offset production and
11 offset units in this interval.

12 **Q. Okay. No more questions.**

13 EXAMINER BROOKS: So this is more than two
14 miles away from the Basin-Mancos Gas Pool?

15 MS. KESSLER: Yes.

16 EXAMINER BROOKS: Okay. That's what I --
17 it just occurred to me the Basin-Mancos Gas Pool does
18 expand, so I had to ask that question.

19 MS. KESSLER: It does, but we're outside
20 the buffer.

21 EXAMINER BROOKS: Okay. Thank you.

22 EXAMINER JONES: Okay. Is that all in this
23 case?

24 MS. KESSLER: Yes.

25 MR. HALL: Nothing, Mr. Examiner.

1 I note that there are two people who have
2 appeared here in response to Ms. Kessler's notice letter
3 and provide them with an opportunity to comment.

4 EXAMINER JONES: Okay. Thank you very
5 much, Mr. Hall.

6 Would you like to make a comment -- any
7 comments?

8 MR. CHEE: No. I've just been sent a
9 letter to attend it.

10 EXAMINER JONES: Okay. Well, we appreciate
11 you coming.

12 That being all in this case, we'll take
13 Case Number 15645 under advisement.

14 And either the clock has stopped or it's
15 going crazy. We're going to take a break here.

16 (Case Number 15645 concludes, 9:24 a.m.)

17 (Recess 9:24 to 9:46 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

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

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