

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

CASE 15355

APPLICATION OF WPX ENERGY PRODUCTION, LLC,
FOR APPROVAL OF AN UNORTHODOX LOCATION,
RIO ARriba COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 6, 2015

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
August 6, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

For the Applicant WPX Energy

Michael H. Feldewert, Esq.
Holland & Hart
110 North Guadalupe
Suite 1
Santa Fe, New Mexico 87501
(505)983-6043
mfeldewert@hollandhart.com

FOR COLEMAN OIL AND GAS AND JMJ LAND
AND MINERALS COMPANY

James G. Bruce, Esq.
P.O. Box 1056
Santa Fe, New Mexico 87504
(505)982-2043
jamesbruc@aol.com

I N D E X

CASE NUMBER 15355 CALLED

APPLICANT WPX ENERGY PRODUCTION LLC

CASE-IN-CHIEF:

WITNESS KEN McQUEEN

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COLEMAN OIL AND GAS AND JMJ LAND
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WITNESS G. CHRIS COLEMAN

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1 (Time noted 9:47 a.m.)

2 EXAMINER McMILLAN: I would like to call
3 case No. 15355, Application of WPX Energy Production,
4 LLC, for approval of an unorthodox location, Rio Arriba
5 County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert for the Santa Fe Office of Holland and
9 Hart appearing here on behalf of the Applicant, WPX
10 Energy. And I have one witness here today.

11 EXAMINER McMILLAN: Any other appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa
13 Fe representing Coleman Oil and Gas, Inc., and JMJ Land
14 and Minerals Company. I also have one witness.

15 EXAMINER McMILLAN: Thank you.

16 MR. FELDEWERT: Mr. Examiner, as you know,
17 we filed a motion for an expedited decision on this
18 case. I intend to call Mr. McQueen to the stand. I
19 think it will inform the Division on the basis for our
20 motion. But as you know, this -- we tried to get an
21 accelerated decision on here because this matter --
22 well, has been completed, and we actually had a frac
23 crew that was ready to proceed. They had to be moved
24 off the location, and couldn't do the zipper frac they
25 were hoping to do.

1 That frac crew is still in the area. It is
2 scheduled to move back in this well as soon as possible.
3 They think they can get them back on the well within a
4 week. So we ask that if at all possible the Division
5 expedite the decision on this case so we can get this
6 work completed and we can get the royalties moving to
7 the BLM at the state of New Mexico.

8 With that said, I would like to call our
9 first witness.

10 EXAMINER McMILLAN: Opening statements.

11 MR. BRUCE: No. I think it will become
12 apparent when I question my witness what the position
13 is.

14 EXAMINER McMILLAN: Okay.

15 MR. FELDEWERT: Then we would like to call
16 our first witness.

17 KEN McQUEEN
18 having been first duly sworn, was examined and testified
19 as follows:

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Would you please state your name and identify by
23 whom you are employed and in what capacity?

24 A. Good morning. My name is Ken McQueen. I'm
25 employed by WPX Energy. And I am vice president of the

1 San Juan Region.

2 Q. Mr. McQueen, do you have a background in
3 petroleum engineering?

4 A. I do. I have a B.S. degree in petroleum
5 engineering from the University of Tulsa along with 37
6 years of industry experience.

7 Q. And that experience has included the San Juan
8 Basin?

9 A. That is correct for the last 15 years.

10 Q. Have you previously testified before the Oil
11 Conservation Division as an expert in petroleum
12 engineering?

13 A. I have.

14 Q. And, in fact, have you not also testified before
15 the Commission as an expert in petroleum engineering
16 matters such as rule-making procedures?

17 A. That's correct, I have.

18 Q. Did you likewise testify as an expert before the
19 Oil Conservation Commission in 2011 on the horizontal
20 well --

21 A. I did.

22 Q. And, finally, this case, Mr. McQueen, involves
23 what is known as the Northeast Chaco Project Area.

24 A. Correct.

25 Q. That is a communitized area for the San Juan

1 Basin?

2 A. That is correct.

3 Q. Did you testify in the hearing before the
4 Division that resulted in the approval of the Northeast
5 Chaco communitized area as a project area?

6 A. I did.

7 Q. Are you familiar with the non-standard location
8 application that's filed administratively with the
9 Division?

10 A. I am.

11 Q. And in that case you seek an approval for a
12 non-standard location for a well within that Northeast
13 Chaco project area?

14 A. That's correct.

15 Q. And are you familiar with not only the location
16 of that well but also the method by which it was
17 completed and the offsetting acreage?

18 A. I am familiar with it. And to be clear, the well
19 has been drilled, the well has not been completed.

20 Q. Thank you for the clarification.

21 MR. FELDEWERT: I would tender Mr. McQueen
22 once again as an expert witness in petroleum
23 engineering.

24 MR. BRUCE: No objection.

25 EXAMINER McMILLAN: So accepted.

1 Q. With your background on this particular unit, I
2 would like you to turn to what has been marked as WPX
3 Exhibit 1. Is this the initial map that was presented
4 to the Division in connection with the cases that
5 approved not only the Northeast Chaco project area but
6 also the pool for that communitized area?

7 A. That is correct.

8 Q. And in this particular exhibit that was presented
9 at that hearing, you outlined for the Division the area
10 boundary in red?

11 A. That's correct.

12 Q. And that still is the project area boundary?

13 A. That is correct.

14 Q. And does this particular exhibit reflect the
15 development that had occurred to date at the time of
16 that hearing in 2014?

17 A. That is correct. At the time of the hearing last
18 year, we had drilled ten wells in the Northeast Chaco CA
19 area.

20 Q. Okay. And then if you turn to what has been
21 marked WPX Exhibit 2, is that a true and correct copy of
22 the Division order that created the pool for that
23 communitized area?

24 A. It is.

25 Q. And, in fact, if you notice, there's an order No.

1 13817-A for this particular exhibit?

2 A. That's correct.

3 Q. Was there a preceding order of 13817 that
4 actually created or approved the project area for the
5 communitized area?

6 A. That is correct.

7 Q. If I turn to page 4 of this Exhibit No. 2,
8 paragraph 4, does that identify for this project area
9 and its pool the locational requirements for the
10 completed interval of any horizontal wells?

11 A. Yes, it does. In fact, it says, The horizontal
12 oil well shall be located where no portion of the
13 completed interval is closer than 330 feet to the outer
14 boundary of the project area.

15 Q. So to the outer boundary of the entire project
16 area?

17 A. That's correct.

18 Q. If I now turn to what's been marked as WPX
19 Exhibit 3, is this once again a map of the Northeast
20 Chaco project area that shows the outline of that area
21 in red?

22 A. It is. This is the current status of the
23 Northeast Chaco CA. The CA is shown -- contained within
24 the red outline. The 330-foot setback that is specified
25 in the order is shown in green as an interior color

1 around that perimeter.

2 The wells are shown as the black lines here. All
3 of the wells that are shown on this map have been
4 drilled. So we have substantially completed the
5 development of the Northeast Chaco CA, as we indicated
6 that was our intent in the previous hearing.

7 The red dots are the surface locations or the pad
8 locations for surface disturbances in the Northeast CA,
9 so you can see that, where possible, we locate multiple
10 wells on each pad.

11 The subject well for today's discussion is the
12 255H. It's shown in red in a section of the Northeast
13 CA. It shares a pad with three other wells.

14 Q. Mr. McQueen, one of the benefits of this project
15 area is you were able to orient the wells in a fashion
16 that the company deemed most prudent draining reserves,
17 correct?

18 A. That's correct.

19 Q. You were able to utilize a well pad for multiple
20 wells?

21 A. That's correct.

22 Q. And this particular -- if I look at this
23 exhibit -- and I'm looking now on the eastern side,
24 particularly around the area where the 255H is
25 highlighted -- it would appear that at least a portion

1 of the well bore actually extends in a 330-foot setback?

2 A. That's correct.

3 Q. What's the circumstance there? What was the
4 company's development process?

5 A. Most of our wells are TD'd in that 330-foot
6 setback area. And the typical casing program would be
7 to run a casing shoe on the end of our pipe that's
8 approximately one-and-a-half-to-two-feet long.

9 Behind that, we would run two joints of casing.
10 That's approximately 80 feet long. And behind that is
11 the float collar and a pup joint and then an RSI tool is
12 set.

13 All of that is cemented in place so there is no
14 communication from the well bore within that 330-foot
15 setback. The RSI tool -- that's an acronym for rapid
16 start initiator -- and this is a device that's
17 approximately four-foot long and is ported. And we run
18 this device in order to be able to pump down our first
19 set of perforation guns.

20 If we did not have the RSI in the casing stream,
21 then we would be forced to tractor in the perf guns.
22 And that's a much more expensive process than pumping
23 down the guns.

24 Q. So if I understand you -- and I'm looking at
25 Exhibit 3 -- the wells that you show there, for example,

1 on that eastern side, while the black lines extend into
2 that green area, the completed interval for these wells,
3 with the exception of 255H, comply to the 330-foot
4 setbacks?

5 A. They do. None of those wells have required an
6 NSO.

7 Q. If I then turn to what's been marked as WPX
8 Exhibit 4, does this then provide the Division with a
9 close-up of the area in question in highlighting the
10 255H which is at issue here?

11 A. It does. This is basically the toe section of
12 the Northeast Chaco Com No. 255H, showing the location
13 of the RSI as well as the location of the total depth of
14 the well drilled.

15 Q. And this indicates, does it not, that that RSI
16 was located 293 feet from that eastern line, correct?

17 A. That is correct.

18 Q. And so then you would be -- and, secondly, this
19 RSI would be considered under the Division's rules as
20 part of the completed interval because it is open to the
21 formation?

22 A. That is correct. It is designed as a port in
23 order to allow fluid to flow into the well bore to pump
24 down the perforation guns. It's really not a port that
25 is designed for subsequent fracture stimulation.

1 But because it is open to the formation, it's
2 typically considered as the first perforation for the
3 determination of the completed interval.

4 Q. And so essentially this RSI then encroaches on
5 the northwest quarter of section 9 -- correct? -- if
6 you're within that 330-foot setback?

7 A. Correct.

8 Q. Would you explain to the Examiner what occurred
9 to cause this RSI to be located only 293 feet from the
10 eastern line of section 8?

11 A. Our casing crew failed to run two joints of
12 casing between the float shoe and the float collar and
13 instead only land one joint of casing there. So that
14 resulted in the RSI being 40-foot further east than it
15 should have been on the plan.

16 The original plan had the RSI set outside of the
17 setback area.

18 Q. Just like your other wells on that eastern --

19 A. Correct.

20 Q. When did you actually discover this omission by
21 the crew of these two joints of pipe?

22 A. Well, unfortunately, we did not discover the
23 omission. The omission was discovered when we submitted
24 our application from C-104 to district 3 office in
25 Aztec.

1 And this came about because the group of folks
2 that we have designing the casing strings and running
3 the casing strings are a different group of folks than
4 we have filing the regulatory application.

5 So our regulatory group took the casing tally
6 that was run and filed that and sent that over for the
7 C-104. And when Mr. Perrin was reviewing that, he
8 realized that the RSI was within the 330-foot setback.
9 And this was on July 1st, that he made this
10 determination.

11 Q. And did the company itself examine to ascertain
12 whether the actual completion -- the actual drilling
13 that followed its operational plan then included the
14 joints of pipe that you expected to be included?

15 A. We did. We had this well scheduled for fracture
16 stimulation on Monday, July 6th. That would have been
17 the Monday after the three-day July 4th weekend. And so
18 after the discovery on July 1st, we had one working day
19 left. And the entire day of July 2nd was spent
20 verifying casing tallies and determining whether or not
21 the RSI was really set in the setback area.

22 And after that day of work, we determined that,
23 yes, in fact, the RSI is set as it's shown on this
24 exhibit.

25 Q. And by that time, had the company started

1 utilizing the RSI to begin the completion of the well?

2 A. That's correct. Because this -- because we were
3 so close to the frac date on July 6th and because of the
4 three-day weekend, all three of the wells that were
5 anticipated to be included in the zippered frac had been
6 prepped for hydraulic stimulation -- which means the RSI
7 tool had been opened in all three wells, the perf guns
8 had been pumped down in all three wells, and the first
9 stage of perforations had been shot in all three wells.

10 Q. If I turn to what has been marked as WPX
11 Exhibit 6 -- and I want to go through the colors here in
12 a minute -- but does that depict the condition of the
13 well at the time that you determined that you indeed
14 were one or two joints short on your pipe length for
15 your RSI?

16 A. It does.

17 Q. And what are you showing here? What do these red
18 dots represent?

19 A. The red dot farthest east -- and these are all
20 labeled, but that is the location of the RSI; its
21 measured depth is at 10,808 feet which would set it at
22 293 feet from the east line.

23 And the next three dots are the perforation
24 clusters where we had perfed the casing in preparation
25 for the hydraulic stimulation that was going to take

1 place on July 6th.

2 And as you can see, each of those first three
3 perforations were shot as designed and are all non NSL
4 locations.

5 Q. So the only NSL aspect so far of the well bore is
6 the location of the RSL?

7 A. That's correct.

8 Q. The actual perforations that have started are at
9 a standard location?

10 A. That's correct.

11 Q. Okay. Now, at the time you discovered this and
12 began looking at this, did you examine the feasibility
13 of, for example, setting bridge plug if you were at the
14 non-standard location of the RSI?

15 A. We did. Because the frac crew was setting up on
16 location and actually beginning the zipper frac on
17 July 6th, we were under a very big time crunch to try to
18 resolve this NSL issue, because we wanted to include the
19 255 in the zipper frac.

20 Three-way zipper fracs are our most efficient and
21 cost effective methodology to complete these wells out
22 here, because it allows us to complete wire line work in
23 one or two laterals while we are stimulating in the
24 third lateral. And so by utilizing that process, we get
25 the most effective cost completion possible out here.

1 So first thing Monday morning we looked at --
2 beginning to look at all alternatives to rectify this
3 NSL issue. And one aspect that was considered was
4 isolating the RSI tool so that it was not -- did not
5 represent a first perforation.

6 And the issue with that is once you perforate the
7 casing, there is typically significant deformation that
8 takes place in that casing pod. If you've ever seen a
9 casing carrier that's been shot and brought out of the
10 hole, you can see significant deformation in that pipe.

11 And it is reasonable to think the same type of
12 deformation takes place in the casing when that
13 perforation gun is shot. And so as a typical best
14 practice at WPX, we do not trip bridge plugs through
15 intervals that have already been perforated.

16 So in order to isolate the RSI, we would have, in
17 fact, had to set a bridge plug past the RSI in all three
18 of these perforations. That would have been at a
19 measured depth of approximately 10,600 feet.

20 Q. If you look at Exhibit No. 5 and follow what you
21 just said, on this particular diagram that would require
22 that isolation plug to be to the west of that last red
23 dot, correct?

24 A. Correct.

25 Q. So that would be at a distance of over 477 feet

1 from that east line.

2 A. That's correct. And it would essentially -- not
3 essentially but it would sacrifice the completion on
4 that first stage of perforations. And this well bore
5 was designed with 15 frac stages.

6 So by giving up that first three perforation
7 clusters in the first frac stage, we would have lost
8 about seven percent of the productivity in that well
9 bore.

10 Q. Now this encroaches then on the northwest quarter
11 of section 9, this RSI does. Who owns that acreage?

12 A. That is WPX Energy.

13 Q. 100 percent owned by WPX?

14 A. Yes. In the northwest quarter of section 9.

15 Q. Of section 9?

16 A. Yes.

17 Q. And you then eventually filed an application with
18 the Division for a non-standard location, correct?

19 A. We did to address the RSI being in the setback
20 area.

21 Q. And is that marked as WPX Exhibit 6?

22 A. It is.

23 Q. And if I look at the notice for that Exhibit No.
24 6, it shows that you actually -- the company at that
25 time provided notice to two interest owners in the

1 southwest quarter of section 4, correct?

2 A. That's correct.

3 Q. That would be Coleman and JMJ Minerals?

4 A. That is correct.

5 Q. This was prepared by the company's regulatory
6 manager, correct?

7 A. That's correct.

8 Q. What was going on at the time and what resulted
9 in providing notice to these interest owners who turn
10 out to be over 430 feet away from the RSI?

11 A. As you can imagine on Monday morning, July 6th,
12 there was a full court press in our office to try to
13 resolve this NSL issue so that we could include this
14 well in the zipper frac.

15 So what our regulatory manager was working with
16 was this page on Exhibit 4. In fact, if you look at her
17 submittal -- this would be Exhibit B within the NSL
18 application.

19 Q. So this would be Exhibit B to what has been
20 marked as WPX Exhibit 6?

21 A. Correct.

22 Q. And right behind the C-102?

23 A. Correct.

24 Q. Go ahead.

25 A. So in our haste to get this NSL addressed in

1 order to get this well included in the zipper frac, this
2 schematic was what was prepared. And based on a quick
3 review of this schematic, we noticed those owners that
4 would have been in the southeast of section 4 and in the
5 northwest of section 9.

6 Q. And did the company then subsequently determine
7 the actual distance between that RSI and those interest
8 owners in the -- I guess it turns out to be the south
9 half of section 4?

10 A. We did.

11 Q. And what's that calculated distance?

12 A. That distance is 430 feet from the corner of
13 section 4.

14 Q. So that meets the 330-foot setback required by
15 the Division's order?

16 A. Correct. We are 100 feet past the setback
17 boundary.

18 Q. So if I turn to what has been marked as WPX
19 Exhibit 7, is this a further depiction of this
20 particular well bore in this area that shows the actual
21 distance to that corner of sections 5, 4, 8, and 9?

22 A. It does.

23 Q. And what are you showing here in the yellow?

24 A. The yellow is the 330-foot boundary from section
25 4 that would require -- or that would be the area that

1 would require an NSL location to those owners in
2 section 4.

3 Q. Under the terms of the Division's order, correct?

4 A. Correct.

5 Q. Okay. Is it not true that this Northeast Chaco
6 unit area extends into section 5?

7 A. It does.

8 Q. So there is no setback, for example, in section 8
9 from the northern boundary of section 5?

10 A. That's correct.

11 Q. And clearly your RSI for this particular well is
12 outside of that area of encroachment to section 4?

13 A. That's correct, by 100 feet.

14 Q. Are you familiar with -- I think you already
15 testified, you are familiar with this particular RSI
16 device?

17 A. Yes.

18 Q. Okay. And you are familiar with how it is
19 located and what it is designed to do?

20 A. Yes.

21 Q. In your opinion as an expert in petroleum
22 engineering -- let me step back.

23 Just to clarify, that RSI location, that is the
24 only aspect of the interval that is across that 330-foot
25 setback line, correct?

1 A. That's correct.

2 Q. In your opinion as an expert in petroleum
3 engineering, is there anything about the drainage from
4 that RSI at the end of this completed interval that is
5 going to cause excessive or undo drainage from the
6 southwest quarter of section 4?

7 A. No. All of the operators in this area of the
8 southern basin have consistently agreed that 330 feet is
9 the appropriate setback for oil development.

10 Q. And RSI -- I think you mentioned -- is not
11 designed to be a drainage device?

12 A. It is not designed for hydraulic stimulation.
13 The fact of the matter is the RSI, because of completion
14 techniques, is cemented to the formation on the exterior
15 of the RSI.

16 And we open that with pressure, and when we open
17 that with pressure, we typically have to break down the
18 formation or pump acid in order to communicate the well
19 bore with the formation to get enough fluid to pump down
20 the guns.

21 So once the guns are pumped down and we shoot the
22 perforations, we pull the guns out of the hole and we
23 begin the stimulation process.

24 Typically, all of the debris from the stimulation
25 of the casing and other debris that's associated with

1 the stimulation often accumulates down at the end of
2 that RSI. So it's really questionable in my mind how
3 effective the frac initiation is from the RSI.

4 The design in these wells is to initiate the
5 fracture treatment from the perforation clusters. But
6 because it is open to the formation, we have to consider
7 that it is the first perforation in the completed
8 interval.

9 Q. Okay. So this particular RSI then is first off
10 not designed for stimulation, correct?

11 A. Correct.

12 Q. It's subject to debris; is that correct?

13 A. Yes.

14 Q. In this case it's located 430 feet from the
15 corners of sections 4, 5, 8 and 9, correct?

16 A. It is actually 430 feet from the southwest corner
17 of section 4.

18 Q. Okay. And in your opinion, will approval of this
19 NSL impair the correlative rights of any of the interest
20 owners in the southwest quarter of section 4 -- which is
21 over 430 feet to the northeast?

22 A. No.

23 Q. Were WPX Exhibits 1 through 7 prepared by you or
24 compiled under your direction or supervision?

25 A. They were.

1 MR. FELDEWERT: Mr. Examiner, I would move
2 the admission into evidence of WPX's Exhibits 1
3 through 7.

4 MR. BRUCE: No objection.

5 EXAMINER McMILLAN: Exhibits 1 through 7 may
6 now be accepted as part of the record.

7 (WPX Energy Exhibits 1-7 offered and admitted.)

8 MR. FELDEWERT: And that completes my
9 examination of this witness.

10 CROSS-EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. McQueen, a general interest question. On
13 your Exhibit 3 -- I am looking at your exhibits, it
14 looks like the initial -- a few initial wells were
15 drilled, more or less, east, west and now they're being
16 drilled, depending on the starting point, but north,
17 northwest or south, southeast; is that correct?

18 A. That's correct.

19 Q. Is that because of fracture orientation in the
20 area?

21 A. It's because of subsequent work that has been
22 done in the area both by us and Encana in microseismic
23 tests. And what those microseismic tests are indicating
24 is that the wells should perform better if they are
25 orientated more to the northwest and southeast, rather

1 than strictly due east and west.

2 I might also add that the original wells that
3 were shown when we were here for the Commission hearing
4 in May of 2014 were largely isolated to east, west
5 orientation within a section. And that is because at
6 that time we did not have this communitized area, which
7 now allows us to drill across section lines and to drill
8 orientations other than strictly east, west.

9 Q. When you first came in to get the new rules for
10 this pool -- and the spacing is still 320 acres --
11 correct? -- individual well spacing?

12 A. The spacing is 320 acres, yes.

13 Q. And I know you testified up here a number of
14 times. Normally for 320 acre well units, there would be
15 660 foot setbacks; is that your understanding of
16 Division rules?

17 A. Not necessarily. It depends whether those
18 producing wells are oil wells or gas wells. And here in
19 this area, there are probably 120 different Gallup
20 pools. And where the pool is undefined by Commission
21 action several years ago, those wells are in the Basin
22 Mancos gas pool. The Basin Mancos gas pool is based on
23 320 acres with 660 foot setbacks.

24 The Gallup oil pools have a variety of spacings
25 and a variety of setbacks. To date, all of the

1 operators in this area when they complete a well in the
2 660-foot setback for the Basin Mancos gas pool apply for
3 NSLs at 330 feet, because it is an oil well, not a gas
4 well. And that's the distinction here.

5 Q. And I think you said -- and I don't mean to put
6 words in your mouth -- but WPX's fieldhands made a
7 mistake and put only one giant casing versus two?

8 A. Correct.

9 Q. So as a result, the RSI tool could not be
10 controlled appropriately?

11 A. Well, they were supposed to put 80 feet of pipe
12 in this location that was between the TD of the well and
13 where the RSI sit. So when they ran only one joint of
14 casing, that moved the RSI basically 40 feet closer to
15 the TD of the well.

16 Q. When you eventually frac the well, will the frac
17 lead outward past the end of the well bore?

18 A. No. The well bore is equipped with two plugs,
19 both the float shoe and the collar that catches the
20 flood for cementing. Both are plugs and are cemented in
21 place. So there's isolation there. And then before we
22 open the RSI, we pressure tested the casing. And we had
23 no communication to the formation.

24 Q. Now you said you prefer not to set a bridge plug
25 where the wells are even perforated; but could an

1 attempt be made?

2 A. An attempt could be made, yes. Again, as I
3 mentioned earlier, our completion folks would not
4 support that activity because it really represents a
5 high degree of risk to the completion, because the risk
6 is getting the bridge plug stuck in the perforations.
7 And if you have your bridge plug stuck in your
8 perforations and you're unable to remove it, then you
9 are potentially giving up the opportunity to fracture
10 stimulate that perf cluster.

11 MR. BRUCE: That's all I have, Mr. Examiner.

12 EXAMINATION BY EXAMINER McMILLAN

13 EXAMINER McMILLAN: So what would be the --
14 what does the path of the frac from the microseismic
15 show? What direction would it travel?

16 THE WITNESS: It travels roughly northeast
17 to southwest, about 40 degrees east of north would be
18 the average indication from our microseismic.

19 EXAMINER McMILLAN: So the RSI is open to
20 the formation, right?

21 THE WITNESS: Correct.

22 EXAMINER McMILLAN: So could the frac
23 travel -- could it extend to section 4?

24 THE WITNESS: It would be a significantly
25 longer distance than the 330 feet if it did. It is

1 relatively difficult to ascertain the half leaks of
2 these fracs, because they are fracked with a nitrogen
3 foam and sand combination.

4 So while that is relatively a homogenous
5 system at the surface when it's pumped, once it gets to
6 the reservoir, it begins to separate out.

7 So I think the likelihood of getting a
8 propped frac into section 4 is remote. And, in fact,
9 all of the -- all of the NSLs that have been applied for
10 out here today support that assumption, that 330 feet is
11 the appropriate setback to protect correlative rights in
12 adjacent sections.

13 EXAMINER WADE: I have a few questions.

14 EXAMINER McMILLAN: Go ahead.

15 EXAMINER WADE: I guess I could piggyback on
16 the last question asked.

17 EXAMINATION BY EXAMINER WADE

18 EXAMINER WADE: If you refer to Exhibit 3.
19 I believe you have that one open right now. It should
20 be the map showing all the drilled wells currently.

21 THE WITNESS: Okay.

22 EXAMINER WADE: Right above the 255H, I see
23 a 264H. Has that been completed?

24 THE WITNESS: Yes.

25 EXAMINER WADE: And have you seen any impact

1 on section 4?

2 THE WITNESS: We have not seen any impact on
3 section 4.

4 EXAMINER WADE: So now taking a step back.
5 You were involved in the formation of the Northeast
6 Chaco project area?

7 THE WITNESS: Yes.

8 EXAMINER WADE: And do you know who was
9 noticed in that formation of that project area?

10 THE WITNESS: Yes.

11 EXAMINER WADE: What parties were noticed?

12 THE WITNESS: All parties around the
13 perimeter of the proposed CA were notified. And that
14 would include JMJ and Coleman.

15 And I might also add that part of that
16 order -- let me back up. There were three existing
17 pools that laid across our proposed CA. Each one of
18 those pools had different setbacks and different spacing
19 requirements.

20 And we asked for a 330 setback within our
21 CA. We also agreed that we would not contest any
22 operator drilling within 330 feet of us on the outside
23 of the CA. So there were some concerns raised by some
24 of the operators who were in existing pools that had
25 setbacks greater than 330 feet, that they might be

1 adversely impacted.

2 So we made that concession at the time of
3 the last hearing, that we would not object to any NSL of
4 any operator that would drill within 330 feet of the
5 exterior boundary of our CA.

6 EXAMINER WADE: So out of those three pools
7 that you just mentioned, some had longer than 330 and
8 some had 330?

9 THE WITNESS: Yes.

10 EXAMINER WADE: As far as setbacks go?

11 THE WITNESS: Correct.

12 EXAMINER WADE: I believe that part of the
13 order required that WPX provide some drainage data; is
14 that correct?

15 THE WITNESS: It did.

16 EXAMINER WADE: And do you have any of that
17 data at this time?

18 THE WITNESS: The order was predicated on
19 collection of approximately 18 months of production data
20 so we could fully assess that drainage information.

21 We had been operating under the suggested
22 best management practice that BLM has issued for
23 hydraulic stimulation, so that we are notifying all
24 offset well operators of our fracture activities as well
25 as reporting any inter-wellbore communication that we

1 see from stimulation to District 3, Aztec Office.

2 EXAMINER WADE: In this particular area,
3 have you had any reports of interwell communication?

4 THE WITNESS: We do see some inter-wellbore
5 communication, yes.

6 EXAMINER WADE: Of what nature?

7 THE WITNESS: Primarily pressure increases
8 in offset wells. And chemical analysis of the pressure
9 indicates that it's nitrogen.

10 EXAMINER WADE: And so in your experience,
11 what does that tell you as far as impacting JMJ or
12 Coleman's correlative rights?

13 THE WITNESS: I don't see it as an impact,
14 because, as I mentioned, our frac recipe contains three
15 primary constituents, water, sand, and nitrogen.

16 The reality is once they get into the
17 reservoir and are to set, those fluids tend to separate.

18 And if you look at mobility of nitrogen
19 compared to mobility of water, it's much, much higher.
20 And when you couple that with the fact that we are in a
21 porous formation, it's not unreasonable to think that
22 that nitrogen moves out from the frac front out into the
23 reservoir. And that's what we see in the adjacent
24 wellbores.

25 EXAMINER WADE: But in the end, your

1 testimony is you don't believe that this completion will
2 affect the correlative rights of Coleman and JMJ?

3 THE WITNESS: I do not. We are 100 feet
4 outside of the OCD approved setback.

5 EXAMINER WADE: And I just want to kind of
6 explore the question that Mr. Bruce asked on
7 cross-examination, where there is a preference not to
8 set the bridge plug, it's obvious you said an attempt
9 could be made, but have you a risk/rewards scenario?

10 You discussed the risk. What would the
11 reward be to set a bridge plug?

12 THE WITNESS: There is no reward in this
13 situation, because section 9 is the only impacted party
14 and WPX is a 100 percent owner there.

15 Just to clarify, we explored setting a
16 bridge plug when we thought initially that we were NSL,
17 section 4. Once we determined that we were not NSL,
18 section 4, we dismissed the idea of setting a bridge
19 plug, because, again, to set the bridge plug, we would
20 have set that in front of all of the perforations in
21 order not to -- in order to reduce any mechanical
22 complications of getting stuck in the perforations.

23 So we dismissed that because that would have
24 eliminated this frac stage from the completion and that
25 would have been about 7 percent of the value, one out of

1 15 stages that we would have given up in the well bore.

2 EXAMINER WADE: I don't have any more
3 questions.

4 EXAMINER McMILLAN: I have no questions.

5 THE WITNESS: I might add that the
6 unfortunate thing here is we did not find a mechanism
7 within OCD rules to withdraw this NSL application
8 because we had already given notice to offset parties
9 once we determined that that notice had been given in
10 error.

11 EXAMINER WADE: The way I see it at this
12 point, I know that the motion is regarding standing.
13 The fact is notice was given. And so I think we are
14 talking about correlative rights at this point.

15 THE WITNESS: Okay.

16 MR. FELDEWERT: I have just a couple of
17 followup questions if I may.

18 EXAMINER McMILLAN: Yes.

19 REDIRECT EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Mr. McQueen, first off, I want to stay on
22 Exhibit 3. And I was looking at this development. And
23 this is what has actually occurred under the provisions
24 of the Division's order -- correct?

25 A. Yes.

1 Q. -- of the 330 foot setbacks?

2 A. That's correct.

3 Q. -- after notice was provided to all the parties
4 surrounding this project area, including Coleman and
5 JMJ?

6 A. Correct.

7 Q. -- and nobody appeared in opposition to the 330
8 foot setbacks?

9 A. Correct.

10 Q. -- including Coleman and JMJ?

11 A. That's correct.

12 Q. If I then turn to Exhibit 3. And I want you to
13 look down -- let's go on that eastern side. I want you
14 to go all the way to the bottom. Do you see that 210H
15 well?

16 A. Yes.

17 Q. That was drilled under the provisions of this
18 Division's order, correct?

19 A. Correct.

20 Q. And the completed interval of this well remains
21 330 feet from the boundary of the project area, correct?

22 A. Yes.

23 Q. And therefore 330 feet from the interest owners
24 in the north half of 20?

25 A. Correct.

1 Q. And it is oriented such that your frac
2 direction --

3 A. Yes.

4 Q. -- would be oriented to go into section 20 --

5 A. Correct.

6 Q. -- if it actually went across --

7 A. The setback area, correct.

8 Q. Now I want to contrast this with the 255H. First
9 off, one of the things that I think did not come out,
10 how far across that 330-foot line is that RSI?

11 A. Give me just a moment. The RSI sets at 293 feet
12 from the east line. So it is 37 feet inside the
13 setback.

14 Q. So it is only 37 feet inside the setback; and
15 only the RSI, correct?

16 A. Yes.

17 Q. If I look at Exhibit 7 and I keep my finger on
18 this Exhibit 4, and contrast those wells in the unit
19 that are drilled along the boundaries of the unit with
20 the location of this RSI, it is only 37 feet over that
21 330 feet line -- correct? -- and it is 430 feet from the
22 corner of their 4, 5, 8, and 9, correct?

23 A. Correct.

24 Q. So it is actually farther than any of the wells
25 that have been drilled along the edge of the unit, even

1 those wells that are oriented east to west or northwest
2 to southwest?

3 A. That is correct.

4 Q. And does that enforce your opinion that this
5 non-standard location that you seek is not going to have
6 any impact on the correlative rights of the interest
7 owners in the south half of 4?

8 A. It does.

9 MR. FELDEWERT: That's all the questions I
10 have.

11 EXAMINER WADE: After this series of
12 questions, we will end with this witness and move on.

13 RECROSS EXAMINATION

14 BY MR. BRUCE:

15 Q. This is based on Mr. Wade's question,
16 Mr. McQueen. You said with respect to the 264H that you
17 haven't seen any effect in section 4. But section 4 has
18 no wells in it, correct?

19 A. We do not operate any wells in section 4, I
20 believe.

21 Q. So since you don't have any information --
22 because of that, you don't see an effect on section 4
23 because there are no wells there to compare it with?

24 A. That's fair.

25 Q. You may not have this data, but I'm going to ask

1 anyway. What type of land is section 9? Who is the
2 lessor -- northwest quarter of section 9?

3 A. If you look in our NSL application which I
4 believe is --

5 MR. FELDEWERT: Exhibit 6.

6 A. -- Exhibit 6, there's a ownership map included
7 there as Exhibit B. And it shows that the northwest
8 quarter of section 9 is 100 percent WPX, and the
9 southwest quarter of section 9 is also 100 percent WPX.

10 The south half of section 4 is 75 percent WPX,
11 25 percent Coleman and -- JMJ.

12 Q. That should be 20 percent --

13 A. It should be Coleman and JMJ total are
14 25 percent. Coleman at 20 percent, correct.

15 Q. But who is the lessor of the northwest quarter of
16 section 9?

17 A. I am assuming we are the lessor since it is --
18 since it's WPX acreage.

19 Q. WPX is the lessee.

20 A. The lessee.

21 Q. I am talking about the royalty owner.

22 A. The royalty owner would be -- I am not sure,
23 Mr. Bruce. I would need to check. It could be all BLM
24 or it could be a combination of BLM and fee owners. I
25 don't have that information available.

1 Q. But could the royalty interest ownership in
2 section 9 be different from the royalty interest
3 ownership in the 255H Well?

4 A. It could be. But two different leases. It could
5 be.

6 MR. BRUCE: That is all I have.

7 EXAMINER McMILLAN: Okay.

8 EXAMINER WADE: Mr. Feldewert?

9 MR. FELDEWERT: Nothing further.

10 EXAMINER McMILLAN: Off the record.

11 (Brief recess.)

12 Coleman Oil and Gas and JMJ Land and Minerals

13 CASE-IN-CHIEF

14 EXAMINER McMILLAN: The witness will need to
15 be sworn in.

16 EXAMINER WADE: Mr. Bruce, can you call your
17 witness.

18 MR. BRUCE: My witness is Chris Coleman.

19 G. CHRIS COLEMAN

20 having first been duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Please state your name for the record.

25 A. George Christopher Coleman.

1 Q. And where do you reside?

2 A. Farmington, New Mexico.

3 Q. And do you work for Coleman Oil and Gas, Inc.?

4 A. Yes, I do.

5 Q. And what is your job there?

6 A. I am the president of Coleman Oil and Gas. I
7 kind of run all duties for the most part.

8 Q. Okay. Oversee its operations?

9 A. Yes.

10 Q. With respect to this unorthodox location, are you
11 familiar with WPX's proposal?

12 A. Yes.

13 Q. And have you had a couple of exhibits prepared to
14 discuss why you are objecting to the location?

15 A. We have.

16 Q. Okay. Were Exhibits 1 and 2 prepared under your
17 supervision?

18 A. They were. They were prepared by our geologist,
19 Pete Conradt and Ellen Emendorfer.

20 Q. Would you just briefly go through Exhibit 1 and
21 describe to the Examiner what it shows.

22 EXAMINER McMILLAN: What kind of witness is
23 he?

24 MR. BRUCE: Mr. Examiner, he's just a fact
25 witness.

1 EXAMINER WADE: He is going to be a fact
2 witness?

3 MR. BRUCE: He is a landman by trade; I mean
4 you could qualify him as that. He is in charge of
5 Coleman's operation.

6 THE WITNESS: I am a business major from New
7 Mexico State University, is where I graduated. I've
8 worked in all facets for Coleman Oil and Gas for
9 probably 20 years, from fieldwork all the way through
10 management.

11 I was directly involved with the acquisition
12 of our working interest in section 4 at a considerable
13 cost to Coleman. So we are very concerned about
14 protecting our interest, would be why I am here.

15 Q. (BY MR. BRUCE:) Have you worked as a landman for
16 a number of years?

17 A. I have done land work for many, many years.

18 Q. You did fieldwork?

19 A. Yes.

20 Q. And you have overseen Coleman Oil and Gas's
21 operation in this area?

22 A. Correct.

23 MR. BRUCE: If you want, Mr. Examiner, we
24 could qualify him just as a practical oil and gas man.

25 EXAMINER WADE: If you're going to use him

1 as a fact witness, you don't need to qualify him. But
2 it's good to have some background.

3 MR. BRUCE: Okay.

4 Q. (By Mr. Bruce:) Could you identify Exhibit 1 for
5 the Examiner?

6 A. Exhibit 1 shows section 4 of 236, section 5, 8,
7 and 9. It identifies the 330 foot agreed setbacks. It
8 shows the 660 foot original setbacks. And it also shows
9 the well, the 255H that ultimately the lateral is inside
10 the 330 foot setback.

11 Q. So in looking at this, if you are looking at your
12 color code, if you look in the north half of section 5,
13 the Gallup pool is there, Mancos pool is originally at
14 790 foot setbacks.

15 A. Correct.

16 Q. All of the other acreage had 660 foot setbacks
17 until the 330 foot setbacks were adopted at WPX's
18 request?

19 A. Correct.

20 Q. And Coleman and JMJ were notified of WPX's
21 request as Mr. McQueen testified; is that correct?

22 A. That's right.

23 Q. And you did not object?

24 A. We did not.

25 Q. Why are you here today?

1 A. We are here because we were notified of a
2 potential NSL. We were contacted by WPX shortly after
3 the July 4th holiday. They were wanting to perform a
4 zipper frac. They asked us to waive the NSL. We did
5 not -- we did not feel comfortable doing that.

6 We did have discussions with WPX. In those
7 discussions, it was relayed that there was potentially a
8 lack of control out of the end of that tool, that they
9 could not control where that frac went ultimately at the
10 end of that casing, be it immeasurable but it was
11 definitely concerning to us.

12 We had additional conversations with them that
13 day as they were really wanting to perform their frac
14 jobs, which we understand. The discussion was that they
15 would set a bridge plug and abandon the perfs that were
16 inside the setback, so that the only stimulated perfs
17 would be inside.

18 We found that acceptable. We found that fair and
19 acceptable. It went no further than that.

20 Q. Is that your proposal today, that they set a
21 bridge plug so they are no closer than 330 feet to the
22 outer boundary of the --

23 A. Yes.

24 Q. Just a couple of more things. Look at Exhibit 2,
25 Mr. Coleman. Could you identify that for the Examiner?

1 A. Yes. It shows the previous, in orange, 660s, the
2 330s. It illustrates that if we were to drill in the
3 southwest quarter of section 4, how far we would be away
4 from the corner line versus the WPX well.

5 Again, we just feel like any protections that we
6 can have for our reserves in section 4, we would like to
7 have.

8 Q. So looking at Exhibit 2, if you drilled a well
9 that was closer than 330 feet to the south line and
10 330 feet from the west line to the section boundary, you
11 would have to notify the interest owners in section 8,
12 the northeast quarter of section 8 of that well
13 location?

14 A. Correct.

15 Q. Because you would be closer than 466.7 feet to
16 that section boundary?

17 A. (Witness nodding head up and down in the
18 affirmative.)

19 Q. And WPX is closer than that to the section
20 boundary at this point; is that correct?

21 A. Right.

22 Q. And is it your understanding that setback rules
23 of the Division, are they there to protect correlative
24 rights?

25 A. Yes.

1 MR. BRUCE: I think that is all we have, Mr.
2 Examiner. I move the admission of Exhibits 1 and 2.

3 MR. FELDEWERT: No objection.

4 EXAMINER McMILLAN: Exhibits 1 and 2 may be
5 accepted as part of the record.

6 (Coleman Oil and Gas and JMJ Exhibits 1 and
7 2 were offered and admitted.)

8 MR. BRUCE: I pass the witness.

9 CROSS-EXAMINATION

10 BY MR. FELDEWERT:

11 Q. Mr. Coleman, I believe your company owns -- what
12 percentage interest does Coleman own in gas holdings in
13 the south half of 4?

14 A. 20 percent.

15 Q. 20 percent?

16 A. Yes.

17 Q. How long have you held that interest?

18 A. We took that BLM lease probably two or three
19 years ago.

20 Q. Two or three years ago?

21 A. Estimated.

22 Q. Have you drilled any well on your acreage?

23 A. We have not.

24 Q. Have you proposed any well on your acreage?

25 A. We have not.

1 Q. Do you have any plans to drill any wells on your
2 acreage?

3 A. Definitely, when oil prices are different than
4 they are today.

5 Q. But you have no timetable?

6 A. When prices are --

7 Q. So it's --

8 A. -- say north of \$70.

9 Q. So your testimony is once prices go up to \$70 a
10 barrel, you are going to propose a well?

11 A. We would definitely look at it. Obviously, in a
12 company, there are a lot of other factors that go into
13 that decision.

14 It is our understanding that there has already
15 been two wells that have surface locations on the east
16 half of section 4. They may even already have pilot
17 holes drilled. WPX possibly.

18 We have not been notified as an interest owner of
19 either of those wells.

20 Q. And you testified you did receive notice of the
21 formation of this project area that includes sections 5
22 and 8 offsetting your 20 percent interest in section 4?

23 A. Of 330?

24 Q. Yes.

25 A. Yes.

1 Q. So you received notice that they were proposing a
2 330 foot setback from the entire outer boundary of the
3 project area?

4 A. Correct.

5 Q. And you had no objection to that?

6 A. We do not.

7 Q. If I look at your Exhibit No. 2, for example,
8 under that proposal, if circumstances warranted it, WPX
9 would be able to drill a north to south well directly up
10 that line in section 8 and into section 5 -- correct? --
11 or south to north, right along that 330-foot line?

12 A. I am going to guess you're correct.

13 Q. And at that point where it crossed over section
14 5, that particular well that would be allowed by the
15 Division's order would be only 330 feet from the corner
16 of your acreage, correct?

17 A. As long as part of that pipe was not inside,
18 correct.

19 Q. And there is no debate here that the only portion
20 of the pipe of the well at issue here is the RSI that's
21 inside the boundary -- is that RSI tool, correct?

22 A. Correct.

23 Q. And that is 430 feet from your acreage; isn't
24 that correct?

25 A. Correct. But is that -- it's the lack of control

1 there that is concerning to us.

2 Q. I don't know what you mean by lack of control and
3 I am not sure -- you haven't testified to many opinions
4 and you don't have any qualifications to talk about the
5 lack of control --

6 A. Well --

7 EXAMINER WADE: Mr. Feldewert, we can let
8 him testify without arguing, you can ask simple
9 questions.

10 MR. FELDEWERT: Okay.

11 Q. (By Mr. Feldewert:) So my simple question was
12 this RSI tool is over 430 feet from your acreage,
13 correct?

14 A. Yes.

15 MR. FELDEWERT: That's all the questions I
16 have.

17 EXAMINER McMILLAN: Proceed.

18 EXAMINATION BY EXAMINER WADE

19 EXAMINER WADE: Mr. Feldewert asked a couple
20 of questions I was going to ask, and I guess I will just
21 follow up on Mr. Feldewert's questions in that you can't
22 testify that in fact your correlative rights will be
23 affected, can you?

24 THE WITNESS: You know, it's concerning to
25 us, but no. We cannot but I don't believe it can also

1 be determined that they will not.

2 EXAMINER WADE: I don't have any further
3 questions.

4 EXAMINER McMILLAN: I don't have any more
5 questions for the record. Exhibits 1 and 2 are made a
6 part of the record, right?

7 MR. BRUCE: Right.

8 EXAMINER McMILLAN: I have no further
9 questions at this time.

10 MR. BRUCE: Could I ask one question based
11 on one of Mr. Feldewert's questions?

12 EXAMINER McMILLAN: Sure.

13 REDIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Coleman, you listened to Mr. McQueen testify
16 today. And did you hear him testify that the frac would
17 travel northeast; northeast, southwest?

18 A. Yes.

19 Q. And does that concern you?

20 A. Yes.

21 Q. Since the fractured area could be what you're
22 talking about, is going directly northeast to your
23 acreage?

24 A. Correct.

25 MR. BRUCE: That's all I have, Mr. Examiner.

1 EXAMINER McMILLAN: Closing statements.

2 MR. FELDEWERT: The only thing I have to
3 add, Mr. Examiner, for the reasons I stated earlier, we
4 ask if at all possible that the Division could expedite
5 its decision on this non-standard location. They have a
6 crew out there that they can bring on the well within a
7 week, so that they can continue and finish out this
8 particular development of this Chaco area.

9 MR. BRUCE: I simply -- first of all, we
10 don't object to a quick order being issued. We
11 understand why WPX wants that.

12 Coleman and J and J's basic position is that
13 these pools out here used to have 660 foot and 790 foot
14 setbacks. And now it's 330 but now WPX wants more than
15 that. That's our concern. We would like a bridge plug
16 set. And WPX had originally proposed that and I think
17 that's an easy way out. Thank you.

18 EXAMINER McMILLAN: Okay. Case No. 15355
19 will be taken under advisement. Thank you.

20

21

22 (Time noted 10:30 a.m.)

23

24

25

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

Examiner

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
 6

7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, August 6,
 11 2015, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

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 25


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