

3 IN THE MATTER OF THE HEARING CALLED
4 BY THE OIL CONSERVATION DIVISION FOR
5 THE PURPOSE OF CONSIDERING:

6 APPLICATION OF ENCANA OIL & GAS
7 (USA), INC. FOR APPROVAL OF THE
8 PINON UNIT, CREATION OF A NEW
9 POOL FOR HORIZONTAL DEVELOPMENT
10 WITHIN THE UNIT AREA, AND FOR
11 ALLOWANCE OF 330-FOOT SETBACKS
12 FROM THE EXTERIOR OF THE PROPOSED
13 UNIT, SAN JUAN COUNTY, NEW MEXICO.

CASE NO. 15154

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 May 29, 2014

13 Santa Fe, New Mexico

14
15 BEFORE: SCOTT DAWSON, CHIEF EXAMINER
16 GABRIEL WADE, LEGAL EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Scott Dawson,
20 Chief Examiner, and Gabriel Wade, Legal Examiner, on
21 Thursday, May 29, 2014, at the New Mexico Energy,
22 Minerals and Natural Resources Department, Wendell Chino
23 Building, 1220 South St. Francis Drive, Porter Hall,
24 Room 102, Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
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1 (9:38 a.m.)

2 EXAMINER DAWSON: Good morning. Today is
3 Thursday, May 29th, 2014. We're located at Porter Hall
4 in the Wendell Chino Building, at 1220 South St.
5 Francis, Santa Fe. My name is Scott Dawson. I'm the
6 deputy director for the Oil Conservation Division. I
7 will be the Hearing Examiner for Cases 15153 and 15154.

8 To my right is Gabriel Wade. He's general
9 counsel for EMNRD and representing the Oil Conservation
10 Division.

11 I have had a chance to read the draft order
12 of the Cases 15153 and 15154.

13 And I will ask, Mr. Rankin, do you wish to
14 separate or consolidate these cases?

15 MR. RANKIN: Thank you, Mr. Examiner. We
16 prefer to present these cases separately, and if it
17 pleases the Examiner, we prefer to do Case 15154 first,
18 since that's the case in which Mr. Gallegos has entered
19 an objection to. We'd like to address that case first
20 and then proceed with Case 15153.

21 EXAMINER DAWSON: Okay. I'd please ask for
22 appearances and witnesses.

23 MR. RANKIN: Thank you, Mr. Examiner.

24 Adam Rankin, of Hollard & Hart here in
25 Santa Fe, on behalf of Encana Oil & Gas. And today I'll

1 have three witnesses in Case 15154 and three witnesses
2 in Case 15153.

3 EXAMINER DAWSON: Mr. Gallegos?

4 MR. GALLEGOS: Yes, Mr. Examiner. Gene
5 Gallegos appearing for Pro NM Energy, Inc. And we
6 appreciate the cooperation of counsel taking Case 15154
7 at this time.

8 EXAMINER DAWSON: Are you here to oppose or
9 protest this case?

10 MR. GALLEGOS: No. We're simply
11 intervening. We don't stand in opposition, but we
12 question the setback aspect of the case, the 330-foot
13 setback. We do not oppose formation of the unit or the
14 other portions of the application.

15 EXAMINER DAWSON: Okay. Well, I'm hoping
16 that your concerns will be addressed at the hearing.

17 MR. GALLEGOS: Thank you.

18 EXAMINER DAWSON: Okay. Mr. Rankin, do you
19 have an opening statement?

20 MR. RANKIN: Mr. Examiner, no, I don't. I
21 prefer to proceed with witnesses at this point.

22 EXAMINER DAWSON: Okay. We can swear in
23 the witnesses at this time.

24 MR. RANKIN: Thank you.

25 You guys want to stand up?

1 EXAMINER DAWSON: Please raise your right
2 hand and -- state your name, please.

3 MS. GRAF: Jennifer Graf.

4 MR. CAMPER: Daniel Camper.

5 MS. BINION: Mona Binion.

6 EXAMINER DAWSON: Do you have any exhibits
7 that you wish to enter?

8 MR. RANKIN: We will have -- we do have
9 exhibits, I think a total of 15 exhibits.

10 EXAMINER DAWSON: The court reporter needs
11 to swear them in. I'm sorry.

12 (Ms. Graf, Mr. Camper and Ms. Binion
13 sworn.)

14 MR. RANKIN: Mr. Examiner, I'd like to call
15 my first witness, Ms. Mona Binion, please.

16 EXAMINER DAWSON: Go ahead.

17 MONA L. BINION,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. RANKIN:

22 Q. Good morning, Ms. Binion. How are you?

23 A. Good morning.

24 Q. For the record, can you please state your full
25 name?

1 A. Mona Binion.

2 Q. And by whom are you employed?

3 A. Encana Oil & Gas.

4 Q. And in what capacity?

5 A. As a land negotiator for the San Juan Basin.

6 Q. And have you previously testified before the
7 New Mexico Oil Conservation Division?

8 A. I have.

9 Q. And have your credentials as an expert in land
10 petroleum management been made a matter of record and
11 certified by the Division?

12 A. It has.

13 Q. And are you familiar with the status of the --
14 are you familiar with the applications -- application
15 that's filed in this case?

16 A. I am.

17 Q. And are you also familiar with the lands that
18 are the subject of this application?

19 A. I am.

20 MR. RANKIN: Mr. Examiner, I would tender
21 Ms. Binion as an expert in petroleum land matters.

22 EXAMINER DAWSON: She is so accepted.

23 MR. RANKIN: Any objections?

24 MR. GALLEGOS: No objection.

25 EXAMINER DAWSON: Do you have any

1 objections, Mr. Gallegos?

2 MR. GALLEGOS: No, Mr. Examiner.

3 Q. (BY MR. RANKIN) Ms. Binion, can you please
4 briefly state what it is that Encana seeks with this
5 application?

6 A. Encana seeks the approval of the Pinon Unit as
7 a voluntary federal exploratory undivided unit and the
8 creation of a new pool for horizontal development within
9 the unit boundaries providing for 330-foot setbacks from
10 the exterior boundary of the unit.

11 Q. Ms. Binion, will you please turn to what's been
12 marked as Exhibit Number 1 in your exhibit packet, and
13 can you please just review this exhibit and explain what
14 it shows for the Examiner?

15 A. Exhibit 1 shows the outline of the Pinon Unit
16 boundary in bold black outline, which depicts
17 approximately 800,000 [sic] acres. It's a mixture of
18 federal, state and Indian allotted mineral acres. It
19 includes a portion of the Basin-Mancos gas pool, which
20 contains 320-acre spacing unit rules, with a 660-foot
21 setback. It also contains a portion of the Bisti Lower
22 Gallup pool, which contains 80-acre spacing and 330-foot
23 setbacks.

24 Q. And just for the record, would you mind
25 clarifying the approximate acreage for the unit again?

1 A. The acreage of the Pinon Unit is about 8,005.44
2 acres exactly.

3 Q. Thank you.

4 A. Okay.

5 Q. Thank you.

6 Now, also in this application, does Encana
7 seek to -- seek to create -- combine these pools into
8 one pool creating a new pool; is that correct?

9 A. Correct. Rather than having a mixture of two
10 separate pools, it's our intention to create a new pool,
11 which will be one combined pool, which would extend to
12 the exterior boundary of the Pinon Unit area. And it
13 would be one pool with a uniform setback of 330 feet up
14 to the exterior boundary of the unit.

15 Q. Now, was there an omission in the application
16 before the Division with respect to the description of
17 the unit area?

18 A. Yes. When the application was filed, there was
19 a typographical error in the typing of the application.
20 The south half -- the north half of Section 28 was
21 inadvertently omitted in the typing of the application,
22 but the parties that were noticed when the application
23 was filed included the parties that were surrounding the
24 north half of 28.

25 Q. Okay. And so how many parties -- how many

1 parties was that?

2 A. There were only three working interest parties
3 that were surrounding the north half of 28 that received
4 notice.

5 Q. Of those three, were any of those parties part
6 of the unit itself?

7 A. Two of those three parties were also within the
8 unit boundary.

9 Q. So they're aware of the unit formation?

10 A. That's correct. They were also in the unit, as
11 well as outside the unit.

12 Q. As a consequence of that omission, what did
13 Encana do to reach out to talk to -- to notice those
14 parties?

15 A. We contacted all three of those parties, and we
16 asked them whether or not they had -- we asked for a
17 waiver of the notice provision and asked if they had any
18 objection to the application itself so that we could
19 proceed with the hearing today.

20 Q. Exhibit 2, Ms. Binion, is that a copy --
21 contain copies of the waiver request letters that were
22 sent to each of those three parties?

23 A. Yes.

24 Q. And did you have any subsequent conversations
25 or communications with those parties regarding the

1 request for waiver?

2 A. Yes. Dugan Production returned a written
3 waiver saying that they had no objection to the
4 application and the requests that were being filed in
5 the application.

6 Fullerton sent an e-mail saying -- they
7 were out of the country and were just returning today,
8 and they sent an e-mail back saying they had no
9 objections, and they would sign the waiver and return it
10 to us upon their return inside the country.

11 And then Cross Timbers said that to their
12 knowledge, they had no objection to the application, but
13 they not been able to send the waiver back. They were
14 sending it on to their management.

15 Q. So with respect to each of these three
16 entities, none of the parties raised any objections to
17 the creation or formation of the unit or proposed
18 conditions for the unit creation?

19 A. No.

20 Q. Ms. Binion, moving on to the next exhibit, will
21 you please identify for the Examiners and explain what
22 is Exhibit Number 3 in the exhibit packet?

23 A. Exhibit 3 is the Federal Exploratory Unit
24 undivided format federal unit -- I'm sorry -- unit
25 agreement form that complies to incorporate federal,

1 state and allotted Indian minerals.

2 Q. Is this a standard federal form for a unit
3 agreement?

4 A. It's -- the base form is standard. It's been
5 modified to incorporate the development of horizontal
6 drilling.

7 Q. So when you say that, you mean the unit
8 agreement proposes only horizontal development for
9 purposes of the unit?

10 A. It's limited for horizontal development, and it
11 is also limited to incorporate just one formation or one
12 interval of the unitized area.

13 Q. We'll talk about that particular unitized
14 interval in a moment.

15 Turning to the next exhibit, Exhibit Number
16 4, is this an attachment to the unit agreement?

17 A. Yes. This is Exhibit A to the unit agreement.
18 It depicts the lands contained within the unit area on a
19 tract-by-tract basis, each tract which describes each
20 individual oil and gas lease. It also describes the
21 serial number by either the BIA or the state or the
22 federal serial number. It describes the number of acres
23 and the record lessee on the state, BIA or federal
24 record.

25 Q. And does this Exhibit A correctly reflect the

1 exterior boundaries of the unit?

2 A. It does.

3 Q. And it includes that north half of Section 28
4 that was otherwise omitted from the OCD application?

5 A. It does. It also -- at the bottom of the map,
6 it shows the percentage of acres that are combined that
7 are reflecting the allotted acres -- total number of
8 allotted mineral acres versus the total number of state
9 mineral acres versus the total number of federal mineral
10 acres.

11 Q. With respect to the mineral interests at issue
12 here, are those identified in the next exhibit, Exhibit
13 Number 5?

14 A. Exhibit Number 5, yes, is the Exhibit B to the
15 unit agreement, which, in correspondence with Exhibit A,
16 also reflects on a tract basis the respective oil and
17 gas leases that are reflected on Exhibit A. And it
18 further reflects the ownership of the working interests,
19 the basic royalty, the overriding royalty and the
20 working interests on each tract.

21 Q. And, Ms. Binion, does Encana expect to have 100
22 percent commitment to this unit?

23 A. We expect to have each lease, each tract 100
24 percent committed to this unit, yes.

25 Q. And at this point in time, are there any

1 uncommitted interests?

2 A. We have not had anyone indicate that they would
3 not commit their interest to the unit. That's right.

4 Q. Now, speaking about -- earlier you testified
5 regarding the unit -- the limitations of this unit to a
6 specific interval -- geologic interval. Is that
7 identified in the next exhibit, Number 7 -- rather,
8 Number 6. Forgive me.

9 A. Yes. Exhibit Number 6 is Exhibit C to the unit
10 agreement, which is a type log that was provided by our
11 geologist that depicts the interval on this type log,
12 which is considered the unitized -- reflects the
13 unitized substances to be committed to this unit. It
14 reflects the unitized interval.

15 Q. And your geologist who will be testifying
16 subsequently will give further testimony on this type
17 log?

18 A. That's right.

19 Q. Now, with respect to the proposed unit
20 agreement, has Encana had discussions with the State
21 Land Office and the BLM regarding approval of this unit
22 agreement?

23 A. Yes.

24 Q. And have the BLM and the State Land Office both
25 indicated their preliminary approval for this unit?

1 A. We have received preliminary approval from both
2 the State Land Office and the BLM.

3 Q. Are those identified in Exhibit Number 7?

4 A. Yes.

5 Q. And the first being the preliminary letter --
6 preliminary approval letter from the State Land Office?

7 A. May 20th is the date of the letter from the
8 state -- or Commissioner of Public Lands, which
9 indicates their preliminary approval to the Pinon Unit.

10 Q. And following that letter in the same exhibit
11 is a letter from the BLM indicating the same; is that
12 correct?

13 A. Correct, a letter dated April 21st from the BLM
14 indicating their approval to the formation of the Pinon
15 Unit.

16 Q. You indicated previously that this unit
17 includes allotted Indian lands; is that correct?

18 A. That's correct.

19 Q. So did you also have conversations with the
20 Federal Indian Minerals Office as well?

21 A. We did. The former director of the Federal
22 Indian Minerals Office attended the meetings that we had
23 with the Bureau of Land Management, where we presented
24 the area and depth materials in the initial formation of
25 the Pinon Unit, and they were in favor of formation of

1 the unit. And at the time, the allotted minerals were
2 then unleased, and they were in favor of leasing the
3 minerals and committing them to the unit. Oh, I'm
4 sorry. I retract that statement. That was our other
5 unit. That is for the next unit, the Nageezi Unit.

6 These are all -- these are all leased
7 minerals. They were -- the former director was in
8 attendance at this area and depth meeting, and they were
9 in favor of the formation. Those minerals are leased
10 under existing producing allotted leases, but they were
11 in favor of committing those leases to the unit.

12 Q. Thank you, Ms. Binion.

13 Now, with respect to the BLM's approval,
14 did you also discuss with them a proposal to create a
15 single participating area within this unit?

16 A. Yes. The undivided federal lease form creates
17 a single participating area, and that creates undivided
18 sharing of the royalty interest -- the overriding
19 royalty interest and the working interest throughout the
20 area producing unit area.

21 Q. What is the effect of creating a single
22 participating area within the unit with respect to the
23 Division rules regarding project areas?

24 A. Under the Division rules, under -- by creation
25 of one undivided participating area, the unit area

1 becomes one single project area under the Division
2 Horizontal Well Rules.

3 Q. And what is the benefit of that condition?

4 A. Well, the benefit of that condition is all of
5 the parties within the participating area and now the
6 new project area, all parties participate informally
7 [sic] in all operations within the unit area. There is
8 no undivided -- there is no divided sharing. There is
9 no -- there is no undivided, disproportionate sharing
10 across the unit.

11 Q. I understand.

12 And with respect to the operations side,
13 what is the -- Encana having flexibility with their
14 operations having just a single project area?

15 A. They're easier to locate the laterals in a
16 more -- there is more flexibility in locating laterals
17 because you're able to put them either north-south,
18 east-west, west-east or transverse without worrying
19 about whether or not the project areas are rectangular
20 in shape, and they conform to 80-acre stand-up,
21 lay-down, 160, 320 or any combination of the above
22 because they are adhering to separate pool rules if the
23 lateral penetrates more than one pool.

24 Q. So that's also a benefit of consolidating these
25 pools into one pool just for the horizontal development;

1 is that correct?

2 A. Correct.

3 Q. That gives you the flexibility to operate the
4 unit in a way that is most effective and efficient to
5 produce the unit?

6 A. Correct.

7 Q. Now, speaking about the background and the
8 discussions that Encana had with the State Land Office
9 and with the Oil Conservation Division, did either the
10 State Land Office or the Division have concerns about
11 how this unit would have been operated under separate
12 pools?

13 A. There was also a concern -- under the ONGARD
14 System, it was -- there was a concern that the ONGARD
15 System was unable to handle the management of the
16 production reporting when there was going to be multiple
17 pools being reported under multiple wells being drilled
18 within the unit area on an undivided ownership basis
19 where the actual penetration of the well would not
20 necessarily have penetrated each of those multiple
21 pools. And that was a concern of the Division, where
22 the possible resolution of that would have been, again,
23 to form one simple unified pool across the unit area.
24 For reporting purposes, it would have also resolved that
25 concern.

1 Q. So Encana met previously with the Division and
2 with the State Land Office, and those concerns were
3 brought to Encana's attention?

4 A. Right.

5 Q. And what was the proposed resolution for
6 addressing that concern?

7 A. Was the formation of a single pool across the
8 unit area.

9 Q. That would resolve all the reporting problems
10 for purposes of the State Land Office and the Division?

11 A. That's correct. Correct.

12 Q. And just for clarification for the record, you
13 mentioned ONGARD. What is that?

14 A. ONGARD is the Division's reporting system.

15 Q. For production?

16 A. For production, correct.

17 Q. Now, with respect to Encana's proposal to
18 create a new pool, a single pool, combine these pools
19 into one, did the company identify and provide notice to
20 the operators and the lessees in the surrounding acreage
21 around the proposed unit?

22 A. Correct. We identified the operators of all
23 Gallup-Mancos wells within the exterior boundary of the
24 entire unit area. And where there were no existing
25 Gallup-Mancos wells, we identified the lessees of the

1 Gallup-Mancos operating rights. And where the lessee
2 was Encana, as the Applicant, we identified the mineral
3 owners, and we noticed all those parties.

4 Q. Now, Exhibit A, is that a copy of an affidavit
5 from my law firm indicating that we provided notice to
6 the affected parties that you've identified?

7 A. Yes.

8 Q. And does that exhibit also contain a copy -- a
9 sample copy of the letters that were sent out to those
10 entities?

11 A. Yes.

12 Q. As well as the green card receipts indicating
13 that these notice letters were sent out by certified
14 return receipt?

15 A. Yes.

16 Q. Now, Ms. Binion, I'd like you to just flip back
17 to Exhibit Number 1 for purposes of just discussing a
18 little bit further the notice issue. You indicated that
19 operators surrounding the unit were provided notice in
20 this case; is that right?

21 A. Yes.

22 Q. And did you distinguish between operators who
23 were within a pool that already had 330-foot setbacks?

24 A. We did not distinguish. We noticed all parties
25 surrounding the entire unit boundary, whether they were

1 within a pool that already had a 330-foot setback or
2 within a pool that had a 660-foot setback. We noticed
3 all parties.

4 Q. And was it necessary for you, under the
5 Division rules, to notice all parties, even those who
6 are already subject to the 330-foot setback?

7 A. It's my understanding we were only required to
8 notice parties that would have been encroached under a
9 660-foot setback because we were not encroaching against
10 parties that would have already been under a 330-foot
11 setback, because we were asking for the same setback
12 that we were already under. But we noticed them anyway.

13 Q. And that would have included Mr. Gallegos'
14 parties, though?

15 A. Under the South Bisti Gallup pool, correct --
16 I'm sorry -- the Bisti North Gallup pool.

17 Q. And that is Pro NM -- Pro New Mexico Energy; is
18 that correct?

19 A. Correct.

20 Q. So they received notice even though they're in
21 a 330-foot setback pool?

22 A. Correct.

23 Q. Also, Ms. Binion, did Encana also publish
24 notice in the newspaper providing notice of its
25 intention to create a new pool --

1 A. Correct.

2 Q. -- in this proposed unit?

3 A. Yes.

4 Q. Is that identified at Exhibit Number 9?

5 A. Correct.

6 Q. And does Exhibit Number 9 contain an Affidavit
7 of Publication from the Daily Times?

8 A. Yes. And it's listed as Ad Number 70266.

9 Q. Ms. Binion, were Exhibits 1 through 9 either
10 prepared by you or under your supervision?

11 A. Yes.

12 MR. RANKIN: Mr. Examiner, I'd move to
13 admit Exhibits 1 through 9 for the record.

14 EXAMINER DAWSON: Any objection?

15 MR. GALLEGOS: No objection.

16 EXAMINER DAWSON: So admitted.

17 (Encana Oil & Gas, Inc. Exhibit Numbers 1
18 through 9 were offered and admitted into
19 evidence.)

20 MR. RANKIN: Mr. Examiner, I pass the
21 witness.

22 EXAMINER DAWSON: Mr. Gallegos, do you have
23 any questions?

24 MR. GALLEGOS: I do. Thank you,
25 Mr. Examiner.

CROSS-EXAMINATION

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BY MR. GALLEGOS:

Q. Ms. Binion, regarding the Mancos pool, are you aware of when the pool rules were established?

A. I can't recall the exact date of the order, but yes, I have read the order, so I can vaguely -- yes, I am familiar.

Q. Fairly recent, would you say?

A. Yes.

Q. And for that pool, the rules provide for a 660-foot setback, correct?

A. Yes, sir.

Q. And is Encana developing -- operating wells under those pool rules at other locations than the subject land here?

A. Yes.

Q. In fact, a number of wells in western Sandoval County under those pool rules are being developed by Encana; is that true?

A. Yes.

Q. Now, let's turn to the Lower Bisti Gallup pool rules. Are you aware from the inception of that pool in 1958, until 1976, the setback requirement was 660 feet?

A. I can't tell you the history of that pool, no. I wasn't here in '58.

1 Q. Let me represent to you and ask the Examiner to
2 take administrative notice that in 1976, Order R-1069-G
3 changed the spacing in the Lower Bisti Gallup pool to
4 40-acre spacing, and at that time, changed the setback
5 to 330 acres -- 330 feet. Were you aware of that?

6 A. No, sir. I was not aware of that.

7 Q. You would agree that once the Commission had
8 allowed 400-acre spacing, a 660-foot setback would be
9 unworkable?

10 A. That's logical.

11 Q. And so the 330-foot setback that's come
12 about is a result of that spacing, as far as your
13 investigation has indicated; is that not true?

14 A. That sounds logical, Mr. Gallegos. But can I
15 also make a statement that that's vertical wells?

16 Q. Understood.

17 A. Okay.

18 Q. Exactly.

19 And as I understand it, your
20 recommendation, basically, is that Encana would like
21 uniformity as to the setback requirements? Is that the
22 position?

23 A. Encana can also make a statement that that's
24 oil wells.

25 Q. I'm sorry?

1 A. That's oil wells, right? You're talking about
2 uniformity, but we're talking about oil wells, before I
3 answer the question.

4 Q. Yes. We're talking about the wells that Encana
5 proposes to develop here.

6 A. But I am also asking you to clarify your
7 question. You're asking me to answer a question. I'm
8 asking you to clarify the question. Encana's testimony
9 here is all related to oil wells.

10 Q. Yes, ma'am.

11 A. So I'll clarify the answer. Yes, Encana is
12 asking for uniformity in its application, and it's
13 asking for uniformity in the setback rules for oil
14 wells, yes.

15 Q. I think we're communicating.

16 A. That's correct. Okay. I just wanted to
17 clarify that.

18 Q. I think we're definitely communicating.

19 A. Okay.

20 Q. And you took note of the fact that as far as
21 ONGARD is concerned, reporting would be simplified if
22 there is uniformity as to the particular pool that
23 Encana seeks to develop, correct?

24 A. Correct.

25 Q. And otherwise, Encana would like for there to

1 be uniformity as to the setback requirement for other
2 reasons? Just for practical operating reasons?

3 A. Not practical operating reasons. For being
4 able to locate wells, being able to follow the rules, to
5 have a single set of rules and to be able to locate
6 wells in that single set of rules, rather than having to
7 be -- you know, having to follow rules that don't mesh
8 with each other to be able to locate wells. It's almost
9 impossible -- virtually impossible to locate wells.

10 Q. Understood.

11 And if the setback requirement was 660 for
12 this entire pool, you would have uniformity? In other
13 words, it can be -- 660 can be uniform as easily as it
14 can be 330 and achieve uniformity?

15 A. Uniformity isn't the only reason. There is
16 also -- you lose reserves if you don't have -- well, I'm
17 not going to talk about reserves because I'm not
18 qualified.

19 Q. I was not going to ask you about communication
20 or those kind of things. I figured that's not your end.
21 That's somebody else.

22 But from the land standpoint, you would
23 achieve the uniformity if you have a 660-foot setback or
24 a 330 setback?

25 A. Uniformity, that's correct.

1 Q. Thank you.

2 MR. GALLEGOS: That's all my questions.

3 CROSS-EXAMINATION

4 BY EXAMINER DAWSON:

5 Q. Ms. Binion, on your exhibits, you were talking
6 about, on Exhibit Number 1, the Basin-Mancos gas pool.
7 I don't see it on this exhibit.

8 A. I apologize for that not being identified with
9 a tag, but the yellow -- anything yellow is the
10 Basin-Mancos gas pool. I apologize for that. It wasn't
11 flagged that way.

12 Q. All right. Thanks.

13 A. Everything not identified as an oil pool was a
14 gas pool.

15 Q. On the allotted lands --

16 A. Yes, sir.

17 Q. -- were you able to get signatures from the
18 allottees from those lands?

19 A. Yes, sir.

20 Q. That's all the questions I have of you. Thank
21 you.

22 (Consultation between Examiner Dawson and
23 Examiner Wade.)

24 Q. (BY EXAMINER DAWSON) Okay. The question is on
25 the notice -- is the notice reflective of the correct

1 land description --

2 MR. WADE: That would be the public lands?

3 Q. (BY EXAMINER DAWSON) -- the proposed unit area?

4 It looks like the notice has the 8,005 acres, more or
5 less, the federal lands, on the notice, and when we look
6 at the proposed -- the adjusted application of the
7 proposed area is 7,900, I believe. I have to look back
8 at that exhibit.

9 MR. RANKIN: Mr. Examiner, the notice as
10 provided included the application, which would have
11 included that omission on the north half of Section 28.
12 However, because this is a unit formation -- formation
13 of a unit, under normal Division rules, notice isn't
14 required for a voluntary unit, because all the
15 individuals participating in the unit would be -- would
16 have been contacted anyway for voluntary commitment to
17 the unit.

18 So the only reason that notice is provided
19 is for the offsetting interest owners for the 330-foot
20 setbacks. For that reason, we proceeded to seek waivers
21 and provided notice to the individuals affected and not
22 received proper notice for those 330-setback changes.

23 THE WITNESS: The application described the
24 correct number of acres. It just -- the actual written
25 description that was listed in the application, it just

1 did not say the north half of Section 28. That
2 particular part of the description was left off. But it
3 described the words "8,005.44 acres.

4 EXAMINER WADE: And, again, this is for the
5 benefit of the offset mineral interest owners?

6 THE WITNESS: Correct. And we notified
7 those parties that we had made that omission. They were
8 noticed of the application. And two of those three
9 parties were already in the unit and had received the
10 unit materials. So they knew they were in the unit.
11 They were outside of the unit.

12 Q. (BY EXAMINER DAWSON) So your adjusted acreage
13 calculation included all acres since it was less than
14 the actual application?

15 A. The acres were never adjusted. The acreage has
16 never been changed. The acres were always correct.
17 It's just we didn't -- we left off that last
18 description. It was a typo when we described the lands.
19 If we would have attached a map, it would have been
20 correct. The map wasn't attached. It was just a typo
21 in the written application, but the acres were always
22 correct in every publication.

23 Q. Are there any wells currently producing within
24 the unit boundary in the Basin-Mancos pool?

25 A. Yes. There is the Good Times L10. And that's

1 a horizontal well that we drilled before the unit was
2 proposed, and that well is going to be excluded from the
3 unit.

4 Q. Okay.

5 A. And that's written in the unit agreement. The
6 unit agreement excludes the well from unit
7 participation.

8 Q. Did you provide the offsetting mineral owners
9 the same 330-foot setback? Was that -- I believe you
10 answered that question. I just wanted to verify that.

11 MR. RANKIN: That's correct. Yeah, in
12 terms of the application, include that provision of the
13 rules, and they were notified of that proposed change.

14 EXAMINER DAWSON: I have no further
15 questions. Thank you.

16 MR. RANKIN: Thank you, Ms. Binion.

17 I'd like to call my second witness.

18 Mr. Examiner, my second witness today is Ms. Jennifer W.
19 Graf.

20

21 JENNIFER W. GRAF,

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

24

25

1 DIRECT EXAMINATION

2 BY MR. RANKIN:

3 Q. Ms. Graf, you've already been sworn in,
4 correct?

5 A. Yes.

6 Q. And would you mind, please, stating your full
7 name for the record?

8 A. Jennifer Shundy [phonetic; sic] Graf.

9 Q. Would you please spell your last name?

10 A. G-R-A-F, as in Frank.

11 Q. Thank you.

12 And by whom are you employed?

13 A. Encana Oil & Gas.

14 Q. And what is your position with Encana?

15 A. I'm a geologist in the San Juan Basin group.

16 Q. And have you previously testified before the
17 Division?

18 A. No, I have not.

19 Q. Would you mind recounting for the Examiners
20 your background -- educational background?

21 A. I received my bachelor's of science degree in
22 geology from West Virginia University, and I have a
23 master's degree in science, in geology, from the
24 University of Wisconsin.

25 Q. And would you please review for the Examiners

1 your background in petroleum geology?

2 A. Sure. I have previously been employed at
3 Anadarko Petroleum Corporation, where I worked deep
4 water Gulf of Mexico, and for the last five-and-a-half
5 years, I've worked at Encana, working on the New
6 Ventures Group, as well as the Piceance [phonetic]
7 Development Group before joining the San Juan
8 Development Team.

9 Q. And are you familiar with the application
10 that's filed in this case?

11 A. I am.

12 Q. Have you conducted a study of the geology of
13 area and the lands that are the subject of this
14 application?

15 A. I have.

16 MR. RANKIN: Mr. Examiner, I would tender
17 Ms. Graf as an expert in petroleum geology.

18 MR. GALLEGOS: We have no objection.

19 EXAMINER DAWSON: She is so accepted.

20 Q. (BY MR. RANKIN) Ms. Graf, are you familiar with
21 the proposed geologic interval that would be included in
22 this proposed unit?

23 A. I am.

24 Q. And that is identified in an exhibit, Exhibit
25 Number 10, correct?

1 A. It is.

2 Q. Would you please review for the Examiners
3 Exhibit Number 10?

4 A. Sure. Exhibit Number 10 is the type log for
5 the proposed unit. This is the Rodeo Rosie #1 well.
6 It's located in the southeastern portion of our proposed
7 unit area. This log that we're looking at here has a
8 gamma ray log in the leftmost tract, followed by a
9 resistivity log and a porosity log in the third tract to
10 the far right.

11 On this log, I have identified the major
12 horizons, and I've also bracketed the unitized interval,
13 which goes from 100 feet below the base of the Mesaverde
14 to the base of the Greenhorn limestone, which is also
15 identified as the top of the Graneros Shale.

16 And I would just like to clarify, from the
17 image on Exhibit Number 10, that the lower-most bracket
18 should be right at the top of the Graneros Shale. It's
19 just a graphical misrepresentation that the bracket goes
20 slightly further deeper in the section.

21 The unitized interval is 100 feet below the
22 base of the Mesaverde to the base of the Greenhorn
23 limestone. In this Rodeo Rosie #1 log, this is about
24 1,800 feet of total section that we're proposing for
25 unitization. In this, we have the Gallup Formation,

1 which is about 300 feet of sand bodies interbedded by
2 shale. We also have the Juana Lopez, the Carlile and
3 the Greenhorn.

4 Q. And just to be totally clear, the bracket on
5 the left-hand side of this type log, as you indicated,
6 was meant to actually connect up with the line
7 designated with the Graneros Shale at the base of the
8 Greenhorn?

9 A. That is correct.

10 Q. Now, Ms. Graf, you also prepared some
11 additional exhibits on your study of the geology in the
12 area, correct?

13 A. We did.

14 Q. So if you'll just proceed, and if I have any
15 questions, I'll interject.

16 A. Exhibit Number 11 is a structure contour map at
17 the top of the Mancos Shale. So we have here contour --
18 at a contour interval of 20 feet. We also have, for
19 reference, the outline of the proposed unit in black.
20 Also depicted on this map are two cross sections, a
21 north-south cross-section line, A to A prime represented
22 in red, and a west-to-east cross section represented by
23 the blue line, B to B prime. There is also a green star
24 locating the type log that was just discussed, the Rodeo
25 Rosie #1 well.

1 So to discuss the structure contour of the
2 Mancos Shale, you can see that the beds are dipping
3 gently to the northeast at a gradient of about one
4 degree. We're having about 320 to 370 feet of
5 structural relief from the southwest portion of our
6 proposed unit interval to the northeast portion of the
7 unit.

8 Moving along to the following exhibit,
9 Exhibit Number 12, we have very much the same thing, but
10 this is the top of the Gallup interval. This is a
11 structure contour map showing the top of the Gallup at a
12 contour interval of, again, 20 feet. You can see,
13 again, that the structure is dipping to the northeast at
14 about a one-degree dip.

15 So between these two exhibits, Exhibit
16 Number 11 and Exhibit Number 12, there is no indication
17 that there are any major faults or structural
18 impediments to the development of this unit.

19 Moving on to Exhibit 13, this is the
20 north-to-south cross-section line, A to A prime, which
21 is represented by the red line. The northernmost well
22 is actually outside of the unit boundary. The second
23 and third wells are within the unit boundary, and the
24 southernmost well, the Gold Medal #1 well, is outside,
25 again, the unit boundary.

1 We have the same log curves depicted as the
2 type log. We have a gamma ray log, a resistivity log
3 and porosity log represented for each of these wells.
4 Again, the unitized interval is bracketed.

5 You can see from where the tops have been
6 placed on each of these wells that there are no major
7 thickening or thinning episodes. This is relatively
8 continuous in thickness from the north to the south.
9 You can also -- in the Gallup Formation, the sand bodies
10 that we discussed in the Rodeo Rosie #1 well are present
11 from the north, within the unit boundary, as well as to
12 the south.

13 Moving to the following exhibit, Exhibit
14 Number 14, this is the B to B prime cross section going
15 from west to east. It's set up exactly as the previous
16 cross section. Again, you can see that there are no
17 major thinning or thickening episodes among our horizons
18 outside the unit or within the unit, so stratigraphy is
19 unchanging through that. We also see the same sand
20 bodies within the Gallup present outside of the unit,
21 inside of the unit and, again, outside of the unit.

22 Q. Now, based on your studies, Ms. Graf, just to
23 be clear, have you identified any faults or pinch-outs
24 that would prevent an impediment to the efficient and
25 effective development of this area as a unit?

1 A. I have not.

2 Q. In your opinion, will the formation of this
3 unit provide the most efficient and effective
4 development of the reserves in this area?

5 A. It will.

6 Q. And in your opinion, will the approval of the
7 application be in the best interest of conservation, the
8 prevention of waste and the protection of correlative
9 rights?

10 A. It will.

11 Q. Were Exhibits -- let me get the right numbers.
12 Were Exhibits 10 through 14 prepared by you or under
13 your direction or supervision?

14 A. They were.

15 MR. RANKIN: Mr. Examiner, I would move to
16 admit Exhibits 10 through 14 for the record.

17 MR. GALLEGOS: No objection.

18 EXAMINER DAWSON: They are so admitted.

19 (Encana Oil & Gas, Inc. Exhibit Numbers 10
20 through 14 were offered and admitted into
21 evidence.)

22 MR. RANKIN: I have no further questions.
23 Pass the witness.

24 EXAMINER DAWSON: Mr. Gallegos?
25

1 CROSS-EXAMINATION

2 BY MR. GALLEGOS:

3 Q. Ms. Graf, are you able to tell us what will be
4 the target of development within this interval -- within
5 this unitized interval?

6 A. Currently, our target would be the Gallup.

7 Q. Which is a sandstone?

8 A. Yes.

9 Q. And concerning the wells to the east that
10 Encana is developing, what is the formation that's being
11 developed by those horizontal wells?

12 A. By east, do you mean outside of our unit?

13 Q. Yes, to the east --

14 A. Those are also Gallup.

15 Q. Those are also Gallup? The Sandoval County
16 wells?

17 A. Yes.

18 Q. Do you have familiarity with the facts
19 concerning the well referred to by Ms. Binion? I think
20 she referred to it as the Good Times #10.

21 A. The Good Times L10-2410 IH well.

22 Q. And is that a producing vertical well within
23 the proposed Pinon Unit?

24 A. It is a producing horizontal well within the
25 unit -- within the proposed unit, yes.

1 Q. Who is that well operated by?

2 A. Encana.

3 Q. When was that well developed?

4 A. Early 2013.

5 Q. And is that well completed horizontally in the
6 Gallup?

7 A. It is.

8 Q. If the target is the Gallup, what is the
9 rationale for unitizing the Greenhorn, which I believe
10 to be a shale in the Mancos, which is a shale?

11 A. Sure. Well, we're always collecting data and
12 formulating analyses of other targets, and so this is --
13 this is part of that in case new technologies makes
14 these more promising or our data begins to formulate
15 that as an additional target.

16 Q. The projections for development by Encana could
17 be achieved out of the unitized interval and just
18 confined to the Gallup for present purposes?

19 A. I would -- I would say for our current targets,
20 where we put our current targets, yes, but we are always
21 undergoing scientific analysis of other prospective
22 horizons which are ongoing. And as many in the industry
23 know, it takes several years to develop, so this
24 provides for that.

25 Q. Are you acquainted with the fact that federal

1 exploratory units participate in areas -- are formulated
2 by producing formations? That is, for example, you
3 would have a Mesaverde participating area, a Gallup
4 participating area and so forth?

5 A. I'm not familiar with a lot of land
6 technicalities. Maybe if you could clarify your
7 questions.

8 Q. Are you familiar with the procedure that those
9 participating areas are formulated only after a
10 so-called paying well -- in other words, the well is
11 developed in that particular formation that is a paying
12 well, commercial well?

13 A. I would say that my expertise is not involved
14 in the participating areas.

15 Q. I just have one other question. It's a matter
16 of curiosity more than anything.

17 On your Exhibit 11, for example, do you see
18 the light green lines, some of them sort of a horseshoe
19 line and some of them straight lines?

20 A. Uh-huh.

21 Q. What does that reflect?

22 A. Those are horizontal wells -- existing
23 horizontal wells showing --

24 Q. Existing horizontal wells?

25 A. Yes.

1 -- showing the path of the wellbore, bottom
2 hole as it was drilled.

3 Q. So we would understand the one that's within
4 the proposed unit boundaries, that is the Good Times
5 well?

6 A. Yes, sir. The surface is in Section 10 denoted
7 by a solid black dot, and the toe of the well is in
8 Section 9. So it was drilled from the east to the west.

9 Q. And are you prepared to tell the Examiner where
10 the proposed development wells will be located within
11 the unit, or is that something for Mr. Camper?

12 A. I don't know if either one of us could say that
13 with certainty because we are constantly evaluating
14 where we will be placing our wells, so that has not been
15 finalized.

16 Q. What are the candidate locations? Let's put it
17 that way.

18 A. Well candidate locations would be horizontal
19 wells of varying lengths and -- yes.

20 Q. But within the -- within the unit, what are
21 the --

22 A. Well, I mean, our intention is to drill the --
23 that whole unit, so I don't know for what purpose laying
24 out those wells sequentially -- where we would start and
25 finish, I don't know if any of us has that answer right

1 now.

2 Q. Will the laterals be on an east-west basis
3 similar to the Good Times well, or are you
4 considering --

5 A. I cannot say that with certainty. Again, we
6 have a lot of studies going on right now as to
7 optimal -- optimal spacing and orientation of our wells.
8 It is in Encana's interest, as it is everyone here, to
9 produce this reservoir as efficiently as possible and
10 effectively as possible. So that is our strategy as far
11 as laying out a development plan for this unit. That is
12 our objective.

13 Q. Thank you.

14 A. Uh-huh.

15 CROSS-EXAMINATION

16 BY EXAMINER DAWSON:

17 Q. Good morning, Ms. Graf.

18 Has Encana prepared reservoir data
19 regarding the setbacks or worked on that?

20 A. By reservoir data --

21 Q. The reservoir engineers, did they ascertain why
22 330-foot setbacks -- or the geologists, have they
23 ascertained why the 330-foot setbacks are preferable
24 from 660?

25 A. I would defer that question to our reservoir

1 engineer who is with us here today.

2 Q. All right.

3 On wells that are -- future wells that are
4 drilled within the unitized area, would Encana -- would
5 they be okay, Encana, if they provided the OCD with data
6 on -- so we can review it for our setbacks on pool --
7 future pool hearings that we may have for nomenclature?

8 A. I don't know if I can speak to that. I don't
9 know if I'm authorized to promise data.

10 Q. Well, I'm just asking if that would -- you
11 know, that's something we may want in the future.

12 A. Okay.

13 Q. It's based subject to confidentiality, but
14 that's just for our needs in order for us to develop the
15 new pool that needs to be developed for the Basin-Mancos
16 Shale.

17 A. Uh-huh.

18 Q. And we had a hearing recently on a super comm
19 agreement that -- it was WPX, and they said that was
20 fine, that they would give us data if we needed it
21 subject to confidentiality. That's the reason I was
22 asking. It would be for our purposes.

23 A. Sure. I understand. I just don't know if I'm
24 authorized to make that decision.

25 Q. Okay. I have no further questions. Thank you,

1 Ms. Graf.

2 MR. RANKIN: Mr. Examiner, if I might have
3 a few questions on redirect?

4 EXAMINER DAWSON: You may.

5 MR. RANKIN: Thank you.

6 REDIRECT EXAMINATION

7 BY MR. RANKIN:

8 Q. Ms. Graf, what was your involvement in the
9 discussions with the BLM and the State Land Office
10 regarding proposed unitized area and depth?

11 A. What details are you looking for?

12 Q. Well, were you involved in discussions?

13 A. I was involved. I met with them for several
14 hours going over, essentially, the same exhibits that
15 I've just shown.

16 Q. And at the time you met with the BLM, did they
17 express any concerns over the identification proposed
18 unitized interval?

19 A. They did not.

20 Q. And did you discuss with them at that time what
21 your likely target zones were going to be?

22 A. We did.

23 Q. So they were aware that you were focusing on
24 the Gallup, but you were also seeking to unitize above
25 and below?

1 A. Yes.

2 Q. And they expressed no concerns about that at
3 that time?

4 A. They did not.

5 Q. Is that the same case for the State Land Office
6 as well?

7 A. Yes.

8 Q. So neither the State Land Office or the BLM
9 expressed any concerns regarding the standardized
10 unitized interval for this well?

11 A. No, they did not.

12 Q. And is there very much data available on the
13 proposed unit interval -- I mean -- yeah. Is there very
14 much data available to Encana on the proposed unit area
15 within the unitized interval?

16 A. So I'll repeat your question to make sure that
17 I understand.

18 Q. Yeah, please.

19 A. Are you asking is there a comprehensive amount
20 of data within our proposed unit, within the unitized
21 interval? I would say no, there are not a lot of
22 completed wells within our unitized interval. We are
23 relying a lot on wells outside of our agreement, but we
24 don't have a lot -- a lot of wells having a complete
25 well unitized --

1 Q. If you look at, say, Exhibit 11, for example --

2 A. Yes.

3 Q. -- within the unit area, which is depicted in
4 the black outline --

5 A. Uh-huh.

6 Q. -- what symbols on this map depict wells?

7 A. Well, all of the wells are represented by some
8 form of dot. The varying symbols are representing the
9 status of the well, whether or not it's an oil well.
10 That's a green dot. If it was plugged and abandoned,
11 it's the darker circles with a cross through it, such as
12 you see in Section 5 within the proposed unit interval.
13 You also have several plugged and -- well, yeah, plugged
14 and abandoned wells.

15 Everything on these maps in Exhibits 11 and
16 12 are only showing those wells that penetrated the
17 horizon that's represented by the structural maps. That
18 does not indicate that well logs were present. It only
19 means that the wellbore TD'd at a depth greater than the
20 structural contour that you see here. So within our
21 unit, we do not have very many wells with actual log
22 data.

23 Q. And so Encana has an idea about what it wants
24 to develop, but there may be additional zones within the
25 unitized area that prove to be economically viable?

1 A. That is true.

2 Q. And is that the reason why Encana is looking
3 at its proposed unitized rule, as it has proposed?

4 A. Yes. Our data would not suggest that we would
5 rule out the additional horizons.

6 Q. So it's entirely possible that Encana will, in
7 the development of this unit, find additional zones that
8 it would like to produce?

9 A. That is -- that is entirely possible, yes.

10 Q. No further questions.

11 MR. GALLEGOS: May I?

12 EXAMINER DAWSON: Yes.

13 RECROSS EXAMINATION

14 BY MR. GALLEGOS:

15 Q. Ms. Graf, my calculations may not be very good
16 so I'll defer to yours, but it appears that the unitized
17 interval is roughly 1,700 feet?

18 A. I have 17-, 1,800 feet, yes. I've stated 1,800
19 feet.

20 Q. I probably missed that.

21 But the target, Gallup, is approximately
22 200 feet?

23 A. I have said 300 feet. That was my --

24 Q. You said 300 feet?

25 A. Uh-huh.

1 Q. Well, 300 feet, then.

2 So 1,400 feet, roughly, including two
3 shales and several other sandstone formations, that you
4 are asking be unitized, while, at most, 300 feet are
5 targeted in your development. That's a fact; is it not?

6 A. Uh-huh. Well, to that point, I would say, you
7 know, our wellbore is, you know, only four inches. It's
8 not 300 feet. So when we're targeting the Gallup, you
9 know, we're only targeting a specific zone within the
10 Gallup, but yet we all think that it is logical to
11 include the entire Gallup, you know, what you're
12 suggesting here.

13 So I would say that yes, while this does --
14 while we are targeting sands in the Gallup and within
15 the unitized interval there are extensive shales
16 included in those unitized intervals, that that is not
17 to say that at some point those shales would become
18 commercial. So shales are targeted all of the time.
19 It's not something that we would want to rule out.

20 Q. You do understand, though, that if the Unitized
21 Formation in the request was confined to the Gallup,
22 there is no impediment to, at a later time, coming back
23 before the Commission or the Division and saying, We
24 think there is reason to now include, let's say, the
25 Greenhorn part of the unitized --

1 A. I suppose that is possible.

2 Q. Thank you.

3 EXAMINER DAWSON: No further questions.

4 Thank you, Ms. Graf.

5 Mr. Rankin, you want to call your third
6 witness?

7 MR. RANKIN: I'd like to call my third
8 witness, Mr. Daniel Camper.

9 EXAMINER DAWSON: Mr. Camper, please state
10 your name -- your full name and qualifications.

11 THE WITNESS: My name is Daniel J. Camper.
12 I'm a reservoir engineer with Encana Oil & Gas.

13 DANIEL J. CAMPER,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. RANKIN:

18 Q. Mr. Camper, have you previously testified
19 before the Division?

20 A. I have not.

21 Q. Would you mind, please, reviewing for the
22 Examiners your educational background and then your work
23 experience?

24 A. Not a problem. Yes. I graduated in 2007 from
25 Louisiana State University with a BS in petroleum

1 engineering, and I've been with Encana about seven years
2 now, five of that as a reservoir engineer.

3 Q. And, Mr. Camper, are you associated with any
4 professional affiliations or professional --

5 A. Just SPE, Society of Petroleum Engineers.

6 Q. And are you familiar with the application filed
7 in this case?

8 A. Yes.

9 Q. Have you conducted a study of the lands in this
10 case?

11 A. Yes.

12 MR. RANKIN: Mr. Examiner, I would tender
13 Mr. Camper as an expert in petroleum engineering.

14 MR. GALLEGOS: No objections.

15 EXAMINER DAWSON: No objection?

16 He is so --

17 Q. (BY MR. RANKIN) And, actually, if I might just
18 specify, Mr. Camper, your work has been in reservoir
19 engineering, correct?

20 A. That is correct. I've been a reservoir
21 engineer for the past five years.

22 MR. RANIN: I just wanted to specify that.
23 I'd move to tender Mr. Camper as an expert in reservoir
24 engineering, just to be specific.

25 EXAMINER DAWSON: Any objections?

1 MR. GALLEGOS: No objections.

2 EXAMINER DAWSON: He is so accepted.

3 Q. (BY MR. RANKIN) Mr. Camper, are you familiar
4 with the purpose of an exploratory unit?

5 A. Yes.

6 Q. What is your understanding of the purpose of an
7 exploratory unit?

8 A. Really, you know, the purpose of the
9 exploratory unit is when we don't have enough data to
10 really deem this area, say, as economic right off the
11 bat, so we want to be able to go in and develop as we
12 see fit. So, again, we don't have a lot of data, and
13 this is a test-type well for the area.

14 Q. So this unit agreement is an exploratory unit
15 agreement; is that correct?

16 A. That is correct.

17 Q. Is that one of the reasons why the BLM and the
18 State Land Office are interested in approving such an
19 agreement, to allow Encana flexibility to explore
20 potential productive zones within the area?

21 A. That is correct.

22 Q. Including beyond what might be your initial or
23 primary target zone?

24 A. That is correct. Yes.

25 Q. Mr. Camper, are you familiar with the pools

1 that are currently in existence within the proposed unit
2 area?

3 A. Yes.

4 Q. And have you prepared an exhibit for discussion
5 today with the Examiners?

6 A. I have, yes.

7 Q. Is that Exhibit Number 15 in the exhibit
8 packet?

9 A. That is correct.

10 Q. Would you mind, please, reviewing for the
11 Examiners what this exhibit shows?

12 A. Not a problem. So this exhibit shows in black
13 our proposed Pinon Unit to the northwest portion of
14 that. If you look at the orange line, that's going to
15 be the outline of the Bisti Lower Gallup pool. And if
16 you look at the blue line, which does not affect the
17 Pinon, that's going to be South Bisti Gallup pool
18 outline. Then everything in between is going to be your
19 Basin-Mancos gas pool. So really here, just stating --
20 so every well on here, every horizontal -- you can see
21 the horizontals. You can see the surface location. It
22 will be the blue dot, and the bottom-hole location is
23 going to be the green dot. And you can see throughout
24 this area -- close to the Pinon Unit, you can see all
25 the wells we have in this area.

1 The red numbers above the green dot, the
2 bottom-hole location, are going to be our BTU of our
3 gas, and then the blue number below the -- below the
4 green dot, it's going to be our API, or our oil. So
5 right here it's stating all the oil -- if you're in the
6 Bisti Lower Gallup pool or if you're in the Mancos gas
7 pool, the fluid is the same in the reservoir. It's
8 relatively consistent as you move throughout the unit
9 and throughout the different pools.

10 Q. Mr. Camper, tell us what Encana is proposing --
11 looking at the target area being the Gallup, is Encana
12 expecting these wells to be oil wells?

13 A. Yes, we are.

14 Q. Now, with respect to the pools that you
15 identify within the proposed Pinon Unit, is it your
16 opinion that the technical aspects, the technical
17 characteristics of the hydrocarbons within those pools
18 is essentially identical?

19 A. That is correct. Yeah. The hydrocarbons
20 within the Gallup and Mancos are consistent.

21 Q. And is that largely because in effect -- in
22 effect them being within the same vertical horizon?

23 A. That is true, and it's also part of migrating
24 around the same time period.

25 Q. Now, with respect to the -- to the expected,

1 anticipated pressure gradients across these pools, is it
2 your understanding that the pressure gradients are going
3 to be roughly the same across this area?

4 A. That is correct. So, yeah, the pressure
5 gradients will be relatively the same -- or will be
6 consistent within the Mancos and Gallup Formation, so
7 there won't be any high-pressure zones commingling with
8 low-pressure zones, so no issues with cross-flow.

9 Q. And in your analysis and opinion, is there any
10 issue with compatibility of the hydrocarbon fluids you
11 have proposed in this area?

12 A. No. There are no concerns of compatibility of
13 fluids from one pool to the other. Again, you know, the
14 oil gravity from one end of the Pinon Unit to the other
15 end is consistent, so -- and it migrates at the same
16 time, so it's essentially the same oil or hydrocarbon.

17 Q. And in your opinion, will the combining of the
18 Bisti Lower Gallup pool with the other -- I stated that
19 incorrectly. I don't want to mess it up. It's the
20 Basin-Mancos pool; is that correct?

21 A. That's correct.

22 Q. Will the combination of those pools into one
23 single pool for purposes of this horizontal well
24 development result in any waste or loss of reserves --

25 A. It will not.

1 Q. -- in your opinion?

2 And in your opinion, will the combination
3 of the exploration of a single pool reduce the value of
4 reserves in these pools?

5 A. It will not.

6 Q. Is it your opinion that Encana's application
7 will result in waste at all with respect to combining
8 these pools?

9 A. No, it will not. It will actually prevent
10 waste by drilling multiple directions, east-west,
11 north-south and so forth.

12 Q. And the way it will reduce waste is it will
13 allow you to effectively and efficiently drain the
14 entire area?

15 A. That is correct.

16 Q. And in your opinion, Mr. Camper, is it
17 appropriate to create a single pool for horizontal
18 development within this proposed unit area?

19 A. Yes, it is.

20 Q. Now, I just want to talk a little bit about
21 Encana's proposal to set the setbacks at 330 feet. Is
22 it your understanding that 330-foot setback is the
23 default statewide rule for oil development?

24 A. Yes, it is.

25 Q. Have you conducted any studies with respect to

1 drainage specific to this Pinon Unit area?

2 A. No, I have not.

3 Q. And the reason you have not is because it's a
4 standard default setback?

5 A. That's correct.

6 Q. And is there any reason that you have to
7 believe that a 330-foot setback would not be protective
8 of offsetting interests?

9 A. Not at this point in time, not without being
10 able to do -- or having done a study to prove that it's
11 otherwise.

12 Q. Do you understand that the State has set a
13 330-foot default setback because it's protective of
14 offsetting interests who are producing oil?

15 A. Yes.

16 Q. Have you looked at the geology in this area?

17 A. Yes. I've looked at it with a geologist.

18 Q. So the geology with respect to the Gallup zone,
19 in particular, what is -- what is the geology there?

20 A. So it's a tight rock, lower porosity. It's a
21 tight rock as far as permeability goes, which obviously,
22 you know, leads to the fact that while we frack the
23 wells, it's access to the oil and gas reserves.

24 Q. So as a consequence of the tightness of that
25 zone and the protectiveness of the 330-foot setbacks,

1 you have no reason to believe at this point there is any
2 likely impairment to any offsetting interests due to the
3 330-foot setbacks?

4 A. That is correct.

5 MR. RANKIN: Mr. Examiner, I would ask to
6 move Exhibit Number 15 into the record of evidence.

7 MR. GALLEGOS: No objection.

8 MR. RANKIN: And I have no further
9 questions of the witness at this time. Pass the
10 witness.

11 EXAMINER DAWSON: Exhibit 15 is admitted.
12 (Encana Exhibit Number 15 was offered and
13 admitted into evidence.)

14 EXAMINER DAWSON: Mr. Gallegos, do you have
15 questions?

16 MR. GALLEGOS: I do. Thank you,
17 Mr. Examiner.

18 CROSS-EXAMINATION

19 BY MR. GALLEGOS:

20 Q. Mr. Camp, look at Exhibit 15. I have a couple
21 of questions. There are a couple of entries about the
22 middle of the exhibit. It says on the legend "Bisti
23 Lower Gallup pool, 330, 80-acre" lay-downs, and in the
24 lower, left-hand corner, a similar kind of entry. What
25 is the reference to the 80 acres?

1 A. That is given by the State of New Mexico.

2 That's something that was provided to us by the State,
3 just pool rules.

4 Q. So you are not aware that the pool rule that
5 allowed, as of 1976, a 330-foot setback -- foot setback
6 in the Gallup pool was initiated in connection with the
7 allowing 40-acre spacing?

8 A. I'm not aware of that. I'm aware of the 330
9 setback, and, you know, the data I have is the 80-acre.

10 Q. But you were not aware that the 330-foot
11 setback was a companion when the Commission, in 1976, in
12 Order R-1069-G allowed 40-acre spacing in that Gallup
13 pool?

14 A. I'm not aware of that. Yeah, I'm not aware of
15 that.

16 Q. But you understand that would have been for
17 vertical wells?

18 A. That's for that pool. That's my understanding.
19 That's for that pool.

20 Q. And Encana is not proposing vertical wells, is
21 it?

22 A. We -- at this time, no.

23 Q. And you're not proposing that each well will
24 only be dedicated to 40 acres, are you?

25 A. No, we're not.

1 Q. Let's take a look at the indication in the
2 proposed unit, up at what I call the northwest corner of
3 Exhibit 15, the Good Times well. Tell us about that in
4 terms of its relative location to the -- to the section
5 end lines.

6 A. What do you -- will you rephrase the question,
7 please? What are you looking for?

8 Q. What setback was observed in terms of the
9 development of the Good Times well, this horizontal
10 well?

11 A. And honestly, I can't speak 100 percent on that
12 well. So I can't speak for that well specifically. It
13 looks like it's outside of the Bisti Lower Gallup pool,
14 so -- it looks like it's in the Mancos -- Mancos gas
15 pool.

16 Q. But Ms. Graf testified that that is a Gallup
17 Formation well?

18 A. It is.

19 Q. Do you have any information to the contrary?

20 A. I don't. It's a Gallup well, yes.

21 Q. And we don't have available a plat here that
22 would show its relative location to the end lines of the
23 section or sections in which it's located, do we?

24 A. I do not.

25 Q. Do you have a type well diagram for what Encana

1 proposes to drill and develop this unit if it's
2 permitted?

3 A. As far as the target within the 1,700 feet?

4 Q. No, not the target, but the well. In other
5 words, what can we expect in terms of the vertical
6 portion of the well, casing size? And then what do we
7 expect in terms of the horizontal portion of it and the
8 location of fracture stimulations in the horizontal
9 portion?

10 A. You know, obviously, I can't speak to the size
11 of the hole and so forth, but, I mean, this -- we're
12 currently in the process of, you know, developing this
13 unit. We don't know how we're actually -- we're still
14 in the talking phase of how we're actually going to put
15 the layout [sic] within this unit. So it's not a done
16 deal on that so far.

17 Q. Well, let's say that you have a wellbore. And
18 you expect your horizontal lateral to be what length?

19 A. It really depends. So it depends on our
20 layout. So if it's an east-west, it will be one lateral
21 length. If it's north-south, it will be one lateral
22 length. If it's transverse, it can be another. So it
23 really depends on the location of that lateral.

24 Q. Well, would you expect that whatever the length
25 of the lateral is, that you will have stage-frack

1 stimulation jobs? In other words, you will fracture
2 stimulate one portion, and then move along the way so
3 maybe 12 or 14 stimulations will take place?

4 A. I can't speak to the specific number, but yes,
5 that will be the way we will frack the well. We will
6 frack and then move further -- we'll start at the toe
7 and move to the heel.

8 Q. So, for example, let's say that the surface
9 location of the wellbore is within 330 feet of an end
10 line. Your first fracture in the horizontal lateral
11 could be 600 or 7- or 800 feet from the well line,
12 depending on the requirements and what is permitted by
13 the Division, correct?

14 A. That is correct. But we will stay 330 off of
15 that boundary, so we will not frack, obviously, within
16 the setback.

17 Q. You will not -- you will not --

18 A. We won't frack --

19 Q. -- frack within 330 feet?

20 A. -- within the given setback for the oil pool.

21 Q. But you will frack within 660 feet?

22 A. Well, the setback is 330, so we'll abide by the
23 guidelines of the pool rules.

24 Q. But in terms of consideration of communication
25 with offsetting acreage, what would be important,

1 wouldn't you agree, where the -- where the closest
2 fracture stimulation occurs to the end line?

3 A. So when it's all said and done, you know, with
4 the 330 rules and what will be put in place, you know,
5 to kind of say, Hey, we'll protect any offset
6 interests --

7 Q. That's not my question, Mr. Camper. Let me --
8 let me restate the question.

9 A. Please rephrase it, then.

10 Q. As far as any effect on offsetting acreage,
11 what is important, critical is where from the end line
12 the first fracture stimulation occurs. Do you not
13 agree?

14 MR. RANKIN: Mr. Examiner, I would object
15 to any further line of questioning. We're here to
16 approve the formation of a unit, not individual wells or
17 individual completions. So I would object to further
18 questioning on that line with respect to specific
19 completion plans because we haven't -- obviously, we
20 haven't gotten that far yet in the planning and
21 formation of the unit.

22 MR. GALLEGOS: Mr. Examiner, this is
23 directly relevant to the setback -- the setback issue.
24 We're not talking about the formation of the unit.
25 We're talking about the setback, what is -- what is

1 appropriate and allowable for the setback.

2 EXAMINER DAWSON: I think he's answered
3 that question by saying that they have the 330-foot
4 setbacks outlined. That's what they're requesting.
5 It's overruled. The objection is overruled.

6 You may continue.

7 Q. (BY MR. GALLEGOS) As far as the effect of
8 offsetting acreage, it depends on where your closest
9 fracture stimulation occurs in relation to the end line.
10 Do you agree, Mr. Camper?

11 A. I would agree that yes, your fracture -- your
12 drainage and your fracture is going to be -- it's
13 going -- yeah, depends on the setback.

14 Q. Now, you are familiar, are you not, with the
15 wells developed by Encana, horizontal wells, in the
16 Gallup Formation to the east of this unit, in western
17 Sandoval County?

18 A. I am, as far as a production standpoint, yes.

19 Q. And those wells have all been developed
20 honoring pool rules that require a 660-foot setback; do
21 they not?

22 A. My understanding is some wells are at 330, some
23 wells are at 660.

24 Q. Can you give us any more information on that?
25 Approximately how many wells are we talking about?

1 A. So Encana has drilled 40 to 50 wells so far
2 within the Gallup but only one well, obviously, within
3 the Pinon Unit.

4 Q. No, but as far as the horizontal wells, say, 50
5 or 60 wells?

6 A. I'd say 40 or 50, yes.

7 Q. 40 or 50.

8 And you can't give us a number, I suppose,
9 but a good many of those were drilled honoring the
10 660-foot setback rules?

11 A. Yes. We abide by the pool rules.

12 Q. And have you come to the Commission to ask that
13 those pool rules with 660 setbacks be developed and
14 those wells be modified?

15 A. My understanding, yes, we have.

16 Q. You have such an application?

17 A. I do not, no. That's out of my realm. I'm a
18 reservoir engineer, and regulatory and land deal with
19 that.

20 Q. What can you tell the Division will be the
21 design of your fracture stimulations on horizontal wells
22 that will be developed in this unit?

23 A. When you say design, like what -- how detailed?

24 MR. RANKIN: Again, I object to the
25 question because, you know, we're here for approval of

1 the unit agreement, and with respect to the specific
2 wells, it's beyond the scope of the application and
3 beyond the scope of what we're seeking approval for
4 here.

5 MR. GALLEGOS: But, Mr. Examiner, they're
6 seeking to change a pool rule from 660 feet to 330 feet,
7 and this goes exactly to the question of communication
8 effect on offsetting acreage.

9 Q. (BY MR. GALLEGOS) So what I'm asking about is
10 what is the design of your stimulations. Let's take the
11 ones in Sandoval County. How many pounds of sand --

12 A. Well, I'm not going to get into specifics of
13 how many pounds of sand, but one thing to note is that
14 this Bisti Lower Gallup is 330 setback. So we're
15 combining a 330 existing setback with a 660 and going by
16 the oil pool setback. So your comment that it's all 660
17 is not accurate. You know, again, 330 -- some of it's
18 330, and some falls into the 660 portion of the rules.

19 Q. So what you're saying is you're really
20 indifferent to any of the rest of this interval because
21 you're just going direct to the Gallup, and that's
22 already 330, so the Division can forget about the rest
23 of the interval?

24 A. That is incorrect.

25 Q. Well, what can you tell us about reports of

1 communication with offsetting acres that has occurred in
2 the Sandoval County horizontal wells developed by
3 Encana?

4 EXAMINER DAWSON: Mr. Gallegos, I don't
5 think that's affiliated -- or related or relevant to
6 this hearing. I think the hearing is more relevant to
7 what's requested by the operator, and I don't think
8 that's a relevant question.

9 MR. GALLEGOS: Well, I understand your
10 view, but I disagree when we're talking about
11 communication. That's why you have setback rules, for
12 the protection of offsetting reservoirs. That's the
13 very purpose. So if we have some idea of what can be
14 expected, then it's pertinent to the Division, and
15 that's why I'm asking the question.

16 MR. RANKIN: I would object to the
17 question, Mr. Examiner. I think it goes beyond the
18 scope of specific incidents that may have occurred in
19 the past in areas, different geology, different
20 completion.

21 As testified by Mr. Camper, it has not been
22 decided how they're going to complete these wells, and
23 they're not here to seek approval for any specific
24 completions. Simply, the application requests the
25 formation of a unit and establishment of the state

1 default rule for the 330-foot setbacks for oil pools.
2 So the questioning is outside the scope of what we're
3 seeking here.

4 MR. GALLEGOS: Well, Mr. Examiner, I'll
5 just make this comment. To come before this Division,
6 ask for a change in the setback rules and be unwilling
7 to provide any information as to why that's justified
8 concerning the risk to offsetting acreage, you would
9 expect that the Applicant would come forward and say:
10 Here's what our plan is. Here's what we're doing, and
11 here's what the effect will be and not will be. To say,
12 Oh, well, ignore it because they're proposing a unit be
13 formed, we don't propose -- we don't oppose the
14 formation of the unit. In fact, we encourage it. In
15 the San Juan Basin, it's certainly needed, but my
16 question is directly relevant to the setback issue.

17 EXAMINER DAWSON: I think we could sustain
18 the objection and allow you to make a statement in
19 closing argument.

20 MR. GALLEGOS: I have no further questions.

21 CROSS-EXAMINATION

22 BY EXAMINER DAWSON:

23 Q. Good morning, Mr. Camper. On the well that was
24 drilled, the Good Times well, did Encana drill that
25 well?

1 A. We did, yes.

2 Q. Can you tell me about that well, how it's
3 performing to this date and when it was drilled?

4 A. As far as rates and so forth?

5 Q. Yes.

6 A. So the rates, I mean, on that well are anywhere
7 from 160 to 170 barrels of oil, and currently, you know,
8 no forecast on it. I can't give you the forecast on it,
9 but currently it's down to maybe 50, 60 barrels per day.
10 That can all be obtained through the State Website for
11 production, sold and so forth.

12 Q. Do you know roughly how many barrels that well
13 has cumulatively produced?

14 A. Off the top of my head, I do not.

15 MR. RANKIN: Mr. Examiner, just to
16 interject here, I can recall one of our prior witnesses
17 to further address the current status of that well.

18 EXAMINER DAWSON: Okay.

19 MR. RANKIN: If that's appropriate, I'd
20 like to address that. She can address the way that well
21 is doing. I think that would be helpful.

22 EXAMINER DAWSON: Okay. We might call her
23 back for those questions.

24 Q. (BY EXAMINER DAWSON) Do you anticipate that
25 some of these wells drilled within the unitized interval

1 will be dual-stacked or triple-stacked laterals?

2 A. At this point in time, we do not anticipate
3 that, but as we learn more about the reservoir within
4 the unit -- within the unit, that could be an option.
5 But as of right now, the plan is to drill one well in
6 the Gallup, and that's that. But again, it's always on
7 the table depending on what we realize when we do all
8 our science and so forth about the other intervals.

9 Q. Do you anticipate that if you have a
10 dual-stacked or triple-stacked well within the Gallup
11 Formations, within the sands, that there will not be any
12 issues with cross-flow, since you think the reservoirs
13 are pretty much the same with pressures and --

14 A. Yeah. I do not think that -- I do not
15 anticipate any issues with cross-flow even with stacked
16 laterals.

17 Q. The pressures are similar?

18 A. The pressure is the same.

19 Q. The gravity and the oil are similar, so we
20 have, basically, more or less, one pool?

21 A. That is correct. Yeah. The gradients are
22 similar, so obviously your pressures will be a little
23 bit different just based on the depth you go up. But as
24 far as the gradient of the fluid in the reservoir, it's
25 consistent.

1 Q. Do you anticipate in the future that you may
2 have a dual lateral; one may be possible in the Gallup
3 and one in the Greenhorn?

4 A. That could be a possibility.

5 Q. But you feel that the pressures and the
6 gradients within the Gallup and the Greenhorn are pretty
7 similar, too?

8 A. That's correct. Gradients are similar.

9 Q. Within the other shales?

10 A. Yes.

11 Q. Do you have a feeling whether a 330 versus
12 660-foot setbacks, which one may adequately drain the
13 reservoir?

14 A. For oil wells, I would think that a 330-foot
15 setback would be the most adequate way to drain the
16 reservoir.

17 Q. And you really can't answer any questions
18 regarding communication at this time because there
19 hasn't been any wells drilled in the area?

20 A. Yeah. We only have that one well within the
21 area.

22 Q. So you really can't answer any questions.

23 A. I can't.

24 Q. That well had no communication --

25 A. Yeah. I can't answer that.

1 Q. All right. I have no further questions. I'm
2 sorry. One more question.

3 Do you feel that the unit will be fully
4 developed with either lay-downs, stand-ups, diagonals or
5 transverse? You know, you think that you'll eventually
6 get to full development within the boundaries?

7 A. With this being an exploratory unit, the goal
8 is to develop this -- this whole unit, but as we go
9 through, you know, economics, you know, will determine
10 to a certain extent of how we develop the acreage as far
11 as lateral lengths and so forth.

12 Q. Do you anticipate that there will be any future
13 vertical wells drilled within the unit?

14 A. I do not anticipate that.

15 Q. So on the corners of the unit, you think you
16 can -- there will be no strand reserves left within the
17 unitized area?

18 A. I don't anticipate that. With the fact that we
19 don't have a full development plan currently that we're
20 100 percent sold on, I can't answer that 100 percent,
21 but I would anticipate we're going to put laterals in
22 there to effectively drain the 8,000 acres.

23 Q. No further questions. Thank you, Mr. Camper.

24 MR. RANKIN: Mr. Examiner, just a few
25 questions on redirect.

1 EXAMINER DAWSON: Okay.

2 REDIRECT EXAMINATION

3 BY MR. RANKIN:

4 Q. Mr. Camper, just a few questions.

5 Are you aware of any rules under the State
6 Oil Conservation Division rules or other regulations
7 that govern where a fracture may be located within the
8 approved setback locations?

9 A. No.

10 Q. So as long as completions are within the
11 approved setbacks, an operator is in compliance with the
12 rules, correct?

13 A. That is correct.

14 Q. And so are you familiar with the company that
15 Mr. Gallegos is here representing today?

16 A. I am not.

17 Q. Are you aware that the company is within one of
18 the offsetting pools?

19 A. Yes, I do [sic].

20 Q. Are you aware that his company has the benefit
21 of the 330-foot setback?

22 A. Yes.

23 Q. So Mr. Gallegos and the company he's
24 representing has the benefit of making completions up to
25 the 330-foot setback line in his pool; is that correct?

1 A. I would assume they would take advantage of
2 that, yes.

3 Q. And that pool is actually within the proposed
4 unit area; is that correct?

5 A. That is correct.

6 Q. And that pool area is within the same vertical
7 interval of your proposed unit area, correct?

8 A. As far as within the Gallup they're producing
9 from?

10 Q. (Indicating.)

11 A. I would assume so, especially in this area with
12 the Bisti field just north of our acreage.

13 Q. And what Encana is seeking here is just for the
14 same setback requirements for itself; is that correct?

15 A. That is correct.

16 Q. And you just touched on this a little bit, but
17 I want to make sure it's clear for the record. In your
18 opinion, would waste result for development of the oil
19 wells in this proposed unit area if you do not have
20 330-foot setbacks?

21 A. Yes. If we do not have 330-foot setbacks, yes,
22 we would have waste.

23 Q. Thank you, Mr. Camper. I have no further
24 questions.

25 EXAMINER DAWSON: Do you have any recross,

1 Mr. Gallegos?

2 MR. GALLEGOS: No, I do not. Thank you.

3 EXAMINER DAWSON: At this time, the witness
4 will be excused. Thank you, Mr. Camper.

5 MR. RANKIN: Thank you, Mr. Examiner. I
6 have no further questions, no further witnesses.

7 EXAMINER DAWSON: Do you have a closing
8 statement?

9 CLOSING STATEMENT

10 MR. RANKIN: Mr. Examiner, I didn't prepare
11 a closing statement, but just to sum up what you've
12 heard today, today what we're seeking is an application
13 for the formation of a unit limited to a certain depth
14 within the -- from 100 feet below the Mancos down to the
15 Greenhorn Shale, and also to combine the existing pools
16 into one pool, which would be limited to horizontal
17 development only.

18 And as to the testimony you've heard today,
19 uncontroverted is that the -- in order to effectively
20 produce that unit area, we need to have 330-foot
21 setbacks, which is already existing in portions of the
22 pool surrounding -- within the proposed unit area. And
23 in order for this exploratory unit to be effective and
24 efficiently drained, the oil, which is what the
25 anticipated production would be, we need to have those

1 330-foot setbacks.

2 Moreover, as you've just heard from
3 Mr. Camper, there is no indication that any of the
4 technical characteristics of the hydrocarbons within
5 these proposed pools are incompatible in any way, nor
6 are there any concerns about the pressure gradients
7 within the proposed pools, and, therefore, combination
8 of these pools into one with the 330-foot setbacks is in
9 the most interest of protecting correlative rights,
10 preventing waste and proceeding with production in this
11 area.

12 CLOSING STATEMENT

13 MR. GALLEGOS: Mr. Examiner, to begin with,
14 as far as Pro's concerned, there's no intention to take
15 advantage of the 330-foot setback. That's a red
16 herring. If there is any Gallup development, it can
17 happily be done with a 660-foot setback or whatever is
18 required.

19 Let me point out what the situation is. In
20 2008, the Commission defined the Mancos Shale pool
21 660-foot setbacks reasonable and appropriate. It
22 protects the correlative rights of offsetting owners.

23 So now Encana comes forward and points to
24 the 330-foot setback rule that has no analogous
25 connection with what is proposed here. The 330-foot

1 setback came, as we pointed out, in 1976, in connection
2 with 40-acre oil well spacing. It's a totally different
3 situation, and it's totally different as to what the
4 development of those wells would be and the intensity of
5 the stimulation and the technology in the 1970s, when
6 now you're talking about the kind of horizontal
7 development intense stimulations that we know are
8 performed in connection with these horizontal well
9 developments.

10 So the 330-foot setback is an aberration
11 when it's applied to what the circumstance is here. And
12 if the idea is uniformity, uniformity for reporting
13 purposes, uniformity for other purposes, 660 provides
14 uniformity, and that's the Mancos Shale setback, and
15 that's included. I'm not sure why that is included in
16 the interval, but it is. And if that's the case, you
17 achieve uniformity -- we're only talking about moving
18 away from offsetting acreage, you know, one football
19 field farther away from it to have 660 feet.

20 So to come forward and say, Oh, we've got
21 330 feet and ignore the circumstance of that 40-acre
22 spacing and that circumstance is just inappropriate.

23 What the Division's duty and obligation is
24 here is to allow development -- and that's fine, and
25 that can be developed obviously on 660-foot spacing --

1 and at the same time protect the correlative rights of
2 offsetting owners.

3 So we encourage the formation of the unit.
4 We have no problem with that. We just simply say, Let's
5 keep the stimulation process, the development of the
6 reservoir at a distance, where we can hopefully avoid
7 communication and drainage of offsetting acreage. And
8 that would be with a 660-foot uniform setback
9 requirement.

10 EXAMINER DAWSON: So the Mancos pool that
11 you're speaking of, are you talking about the Mancos gas
12 pool?

13 MR. GALLEGOS: I'm talking about the Mancos
14 Shale oil pool --

15 EXAMINER DAWSON: It's 660 from the Mancos
16 gas pool?

17 MR. GALLEGOS: Yes, sir. It's the Mancos
18 Shale. It is the gas pool. Yeah, it is a gas pool.
19 Yeah.

20 EXAMINER DAWSON: I just wanted to clarify
21 that.

22 MR. GALLEGOS: Yeah.

23 EXAMINER DAWSON: Anything further?

24 MR. GALLEGOS: No. Thank you.

25 EXAMINER DAWSON: Okay. If you could just

1 please provide conclusions and findings within two weeks
2 from this day, which will be June 12th, 2014, and also
3 please provide a proposed order -- draft order within
4 two weeks of this date, which is, again, June 12th,
5 2014.

6 This case will be taken under advisement,
7 and this concludes today's hearing for Case Number
8 15154.

9 (Case Number 15154 concludes, 11:17 a.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
MARY C. HANKINS, CCR, RPR
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