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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 15416

APPLICATION OF ENCANA OIL AND GAS (USA), INC., FOR  
APPROVAL OF A 640-ACRE NONSTANDARD PROJECT AREA  
COMPRISED OF ACREAGE SUBJECT TO A SINGLE FEDERAL  
LEASE; FOR APPROVAL TO DOWNHOLE COMMINGLE  
PRODUCTION FROM THE TWO POOLS UNDERLYING THIS  
ACREAGE AND FOR ALLOWANCE OF 330 FOOT SETBACKS  
FROM THE EXTERIOR OF THE PROPOSED PROJECT AREA,  
SAN JUAN COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

February 18, 2016

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
PHILLIP GOETZE, EXAMINER  
DAVID BROOKS, LEGAL COUNSEL

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, WILLIAM V. JONES,  
Chief Examiner, PHILLIP GOETZE, Examiner, and DAVID  
BROOKS, Legal Counsel, on February 18, 2016, 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  
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CASE NUMBER 15416 CALLED  
Encana Oil & Gas (USA) Inc.  
CASE-IN-CHIEF

WITNESS MONA L. BINION

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WITNESS ERIK GRAVEN

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1 (Time noted 8:25 a.m.)

2 EXAMINER JONES: And we will go ahead and  
3 call case 15416, Application of Encana Oil and Gas  
4 (USA), Inc., for Approval of a 640-acre Nonstandard  
5 Project Area Comprised of Acreage Subject to a Single  
6 Federal Lease; For Approval to Downhole Commingle  
7 Production From the Two Pools Underlying this Acreage  
8 and For Allowance of 330 Foot Setbacks from the Exterior  
9 of the Proposed Project Area, San Juan County, New  
10 Mexico.

11 Call for appearances.

12 MS. KESSLER: Jordan Kessler from the Santa  
13 Fe Office of Holland and Hart on behalf of the  
14 applicant.

15 EXAMINER JONES: Any other appearances?  
16 (No response.)

17 EXAMINER JONES: Do you have witnesses?

18 MS. KESSLER: Two witnesses today,  
19 Mr. Examiner.

20 EXAMINER JONES: Will the witnesses stand  
21 and will the court reporter, please, swear in the  
22 witnesses.

23 (WHEREUPON, the presenting witnesses  
24 were administered the oath.)

25 MS. KESSLER: I would like to call my first

1 witness.

2 MONA L. BINION

3 having been first duly sworn, was examined and testified  
4 as follows:

5 DIRECT EXAMINATION

6 BY MS. KESSLER:

7 Q. Please state your name for the record and tell  
8 the Examiner by whom you are employed and in what  
9 capacity.

10 A. My name is Mona Binion. I'm employed by Encana  
11 Oil and Gas. And I'm a land negotiator responsible for  
12 the San Juan Basin in New Mexico.

13 Q. Have you previously testified before the  
14 Division?

15 A. I have.

16 Q. Were your credentials as petroleum landman  
17 accepted and made a matter of record?

18 A. They have.

19 Q. Are you familiar with the application that has  
20 been filed in this case?

21 A. I am.

22 Q. And are you familiar with the status of the lands  
23 in the proposed project area?

24 A. I am.

25 MS. KESSLER: I would tender Ms. Binion as

1 an expert in petroleum land matters.

2 EXAMINER JONES: She is so qualified.

3 Q. Ms. Binion, can you please turn to your Exhibit 1  
4 and describe this exhibit and state what Encana seeks  
5 under this application.

6 A. Exhibit 1 is a map which depicts the application  
7 area drawn in a box, a red box with a dashed outline.  
8 It also depicts the outline of the two pools that exist  
9 within the application area and the immediate  
10 surrounding area.

11 The cross hatched gray area is the Basin Mancos  
12 Gas Pool. And the purple area is the Nageezi Gallup Oil  
13 Pool. Encana seeks to get approval for a nonstandard  
14 project area covering the application area, which would  
15 include a setback rule of 330 feet from the exterior  
16 boundary of the project area and the commingling of the  
17 production from all of the horizontal wells within that  
18 area from the Nageezi Gallup Pool and the Basin Mancos  
19 Pool.

20 Q. Are the 330-foot setbacks an exception to the  
21 Basin Mancos Pool rules?

22 A. It is an exception to the Basin Mancos Pool  
23 rules, yes.

24 Q. And the Basin Mancos Pool has 320-acre spacing,  
25 correct?

1 A. Correct.

2 Q. And the Nageezi Gallup has 40-acre spacing?

3 A. Correct.

4 Q. What is the nature of the acreage in section 10?

5 A. The acreage is underlying an oil and gas lease  
6 from the federal government. And it is one single  
7 lease. The leasehold ownership, operating rights, and  
8 record of title is owned by Encana 100 percent. And  
9 there are no additional overriding royalty interests  
10 under this lease.

11 Q. Is this lease still in its primary term?

12 A. The lease is in its primary term, due to expire  
13 in 2017; however, it is currently producing by an  
14 existing horizontal well.

15 Q. So it will be held by production in 2017?

16 A. Correct.

17 Q. And will approval of the proposed project area  
18 allow Encana to orient its wells for a maximum  
19 recovery?

20 A. It will.

21 Q. Will it also avoid administrative applications  
22 for nonstandard locations in the Basin Mancos and  
23 nonstandard spacing units in overlapping project  
24 areas?

25 A. It will.

1 Q. Do you expect oil production from the proposed  
2 horizontal wells?

3 A. We do.

4 Q. If you could turn to Exhibit 2 and identify this  
5 exhibit for the Examiners.

6 A. Exhibit 2 is an application for downhole  
7 commingling. And it is an application that would cover  
8 all the horizontal wells that would be drilled in this  
9 project area.

10 And it is to commingle the production from both  
11 the Nageezi Gallup Oil Pool and the Basin Mancos Gas  
12 Pool.

13 Q. Does this application show that the oil gravity  
14 and gas BTU is identical?

15 A. Yes, they are, but in both pools.

16 Q. And you mention that there are no overriding  
17 royalty interests in this section; is that correct?

18 A. That's correct.

19 Q. Did you send a copy of this C-107(a) to BLM?

20 A. We did.

21 Q. Did you also identify the effective parties in  
22 all of the spacing units surrounding section 10?

23 A. We did identify the working interest owners, the  
24 operators within the surrounding spacing units.

25 Q. And were they -- they were provided notice of

1 this hearing?

2 A. Yes, they were.

3 Q. Were you able to find addresses of record for all  
4 of the affected parties?

5 A. We did find addresses of record for all the  
6 affected parties, yes.

7 Q. But were two of those notice green cards returned  
8 as undeliverable?

9 A. They were.

10 Q. So was it necessary to publish notice for this  
11 hearing?

12 A. We did publish notice, yes.

13 Q. Is that notice of publication included as  
14 Exhibit 3?

15 A. Yes.

16 Q. And it is directed to the two entities whose  
17 green cards were returned as undeliverable?

18 A. Yes.

19 Q. Is Exhibit 4 an affidavit of publication --  
20 excuse me -- an affidavit prepared by my office with  
21 attached letters providing notice of the hearing to  
22 addresses of record for affected parties?

23 A. Yes, it is.

24 Q. Did you prepare Exhibits 1 and 2 or were they  
25 compiled under your direction and supervision?

1 A. Yes, they were.

2 MS. KESSLER: Mr. Examiner, I move admission  
3 of Exhibits 1 through 4, which includes the two  
4 affidavits as well.

5 EXAMINER JONES: Exhibit 1 through 4 are  
6 admitted.

7 (Encana Oil and Gas (USA) Inc. Exhibits 1  
8 through 4 were offered and admitted.)

9 MS. KESSLER: That concludes my examination.

10 EXAMINER GOETZE: No questions for this  
11 witness.

12 EXAMINER JONES: David.

13 MR. BROOKS: No questions.

14 EXAMINATION BY EXAMINER JONES

15 EXAMINER JONES: You mentioned the first  
16 well out there. I was kind of sleeping during that  
17 time. Can you repeat that one more time.

18 THE WITNESS: The only well that I mentioned  
19 was an existing horizontal well that was drilled on  
20 another portion of the oil and gas lease that falls  
21 under this --

22 EXAMINER JONES: So the lease is held.

23 THE WITNESS: Yes.

24 EXAMINER JONES: Okay. I saw three plugged  
25 wells. They were drilled recently and then plugged in

1 the last few months actually on this section. Were  
2 those just test wells or --

3 THE WITNESS: I really am not aware of what  
4 wells you may be referring to. I defer to possibly our  
5 next witness. He may be aware.

6 There are no Encana wells -- there are no  
7 recent Encana wells that have been drilled in that  
8 section to my knowledge.

9 EXAMINER JONES: This is section 10 of 23  
10 north, eight west?

11 THE WITNESS: Yes, sir.

12 EXAMINER JONES: They were probably headed  
13 off in a different direction or something but spud on  
14 this lease.

15 THE WITNESS: There were some WPX horizontal  
16 wells where the surface location was on this lease. But  
17 the lateral and the production interval is in a section  
18 offsetting this lease. So you may be looking at those  
19 wells.

20 EXAMINER JONES: Okay. They had Encana as  
21 the current operator, but they were plugged 10/16 of  
22 '15. It could have been an entry -- an entry issue from  
23 some of our people in the Aztec District or something  
24 but -- anyway, that's -- they are plugged, whoever they  
25 -- they're plugged.

1           The Basin Mancos spacing unit within this  
2 project area would be a stand-up, the east half?

3           THE WITNESS: Correct. Because the west  
4 half is under the Nageezi Gallup Pool, which would be  
5 40-acre spacing units.

6           EXAMINER JONES: So the project area would  
7 encompass nine spacing units, one of which would be a  
8 stand-up 320 and the other eight would be 40-acre  
9 Nageezi Gallup?

10          THE WITNESS: Correct.

11          EXAMINER JONES: So on the Nageezi Gallup,  
12 you are not asking to form an oversized nonstandard  
13 spacing unit that would consist of the west half. You  
14 are just -- you want to leave those spacing units but  
15 you want just approval of the project area?

16          THE WITNESS: That's what our application  
17 requests, yes.

18          EXAMINER JONES: And this lease, you said it  
19 is all Encana and it is -- is the leasing entity for  
20 Encana the same as the operating entity --

21          THE WITNESS: Yes.

22          EXAMINER JONES: -- with that same name?

23          THE WITNESS: Yes.

24          EXAMINER JONES: Which is OGRID 282327?

25          THE WITNESS: I am not familiar with the

1 OGRID number.

2 EXAMINER JONES: Okay. Is this an old, old  
3 federal lease.

4 THE WITNESS: It was issued in 2007.

5 EXAMINER JONES: So you guys got an  
6 assignment from whoever got the lease --

7 THE WITNESS: We acquired this lease from  
8 QEP Energy, yes.

9 EXAMINER JONES: And the surface of the  
10 lands out here are Indian lands?

11 THE WITNESS: I'm unaware of what the  
12 surface ownership is. I don't know that answer.

13 EXAMINER JONES: There is not going to be  
14 any issues with surface locations?

15 THE WITNESS: We have existing permits that  
16 are approved which contain surface locations that are  
17 located within section 10. Those wells were originally  
18 permitted to be drilled oblique, which would be east to  
19 west.

20 This application would allow us to sundry  
21 those permits to make the orientation transverse, which  
22 will be from southeast to northwest.

23 EXAMINER JONES: So they will all be in Unit  
24 letter P?

25 THE WITNESS: No. There's another bit of

1 testimony that will show our development plans.

2 EXAMINER JONES: Okay. I don't have any  
3 more. Thank you very much.

4 MS. KESSLER: I will call my next witness.

5 ERIK GRAVEN

6 having been first duly sworn, was examined and testified  
7 as follows:

8 DIRECT EXAMINATION

9 BY MS. KESSLER:

10 Q. Would you please state your name for the record  
11 and tell the Examiners by whom you're employed and in  
12 what capacity.

13 A. Yes. I am Erik Graven. I'm a senior geologist  
14 with Encana, working the San Juan Basin of New Mexico.

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

17 A. Yes, I have.

18 Q. And were your credentials as an expert in  
19 petroleum geology accepted and made a matter of record?

20 A. Yes.

21 Q. Are you familiar with the application filed in  
22 this case?

23 A. Yes.

24 Q. And have you conducted a geologic study of the  
25 lands that are the subject of this application?

1 A. I have.

2 MS. KESSLER: I tender Mr. Graven as an  
3 expert in petroleum geology.

4 EXAMINER JONES: He is so qualified.

5 Q. Can you please turn to Exhibit 5 and identify  
6 this exhibit for the Examiners.

7 A. Yes. This is a map showing the outline of the  
8 proposed project area encompassing section 10, outlined  
9 in red on the map.

10 It also shows the adjacent Betonnie Tsosie, which  
11 is currently proposed, outlined in green. That's  
12 adjacent to section 10, just to the east.

13 And then it also shows our proposed development  
14 plan showing five wells that would be drilled from the  
15 southeast to the northwest.

16 Q. What is the proposed target of the horizontal  
17 wells?

18 A. That would be the Gallup sandstone member of the  
19 Mancos shale.

20 Q. And why are transverse wells the preferred  
21 orientation?

22 A. The orientation of maximum horizontal stress in  
23 this area is from northeast to southwest. So induced  
24 fractures, fractures induced by fracturing would  
25 propagate in that same direction. Therefore, drilling

1 perpendicular to that direction gives us the most  
2 efficient development plan.

3 Q. Does the formation extend across the proposed  
4 project area?

5 A. Yes, it does.

6 Q. And have you prepared a structure map and cross  
7 sections to support this conclusion?

8 A. Yes, I have.

9 Q. Will you please turn to Exhibit 6 and identify  
10 this exhibit for the Examiners.

11 A. Yes. This is a structure contour map drawn on  
12 top of the Mancos shale. It has a contour interval of  
13 20 feet.

14 It shows gently dipping beds to the north,  
15 northeast, with dips roughly at 2 degrees. There is no  
16 indication of faulting in this area. It's a fairly  
17 featureless structure across the project area.

18 Q. Have you identified any other geologic  
19 impediments that would prevent the acreage from  
20 contributing to the overall production from the  
21 anticipated wellbores?

22 A. No, I have not.

23 Q. Would you please turn to Exhibit 7 and identify  
24 this exhibit for the Examiners.

25 A. Yes. Exhibit 7 is cross section A, A Prime,

1 which was shown on the previous map exhibit. It extends  
2 from the northwest to the southeast across the proposed  
3 project area.

4 The various log tracks that are shown on each of  
5 the wells are the gamma ray log on the far-left-hand  
6 track as a rough indication of increasing clay content  
7 as it deflects to the right.

8 The second track just to the right of the depth  
9 track is a resistivity log, indicating oil saturation  
10 with deflections to the right.

11 And then in the third track on each of the wells  
12 is a porosity log with increasing porosity shown in red.  
13 A number of the wells are missing some log data. But  
14 each of them has a continuous resistivity curve across  
15 the Mancos shale. And it shows continuity of these  
16 intervals across the entire project area.

17 Q. Do you consider these four wells to be  
18 representative of wells in the area?

19 A. I do.

20 Q. Please turn to Exhibit 8 and identify this  
21 exhibit for the Examiners.

22 A. Yes. Exhibit 8 is cross section B, B Prime also  
23 shown on the previous map exhibit. This extends from  
24 the southwest to the northeast, showing the same logs as  
25 the previous A, A Prime exhibit. It also shows

1 continuity of the target reservoir across the project  
2 area.

3 Q. So, in your opinion, is the Mancos formation  
4 continuous across section 10?

5 A. Yes, it is.

6 Q. Will the federal lease covering section 10  
7 contribute to the production from the planned horizontal  
8 wellbores?

9 A. Yes, it will.

10 Q. In your opinion, will approval of this  
11 application be in the best interests of conservation for  
12 the prevention of waste and the protection of  
13 correlative rights?

14 A. Yes, it will.

15 Q. And were Exhibits 5 through 8 prepared by you or  
16 under your direction and supervision?

17 A. Yes, they were.

18 MS. KESSLER: Mr. Examiners, I'd move into  
19 evidence Encana Exhibits 5 through 8.

20 EXAMINER JONES: Exhibits 5 through 8 are  
21 admitted.

22 (Encana Oil and Gas (USA) Inc. Exhibits 5  
23 through 8 were offered and admitted.)

24 MS. KESSLER: That concludes my  
25 examination.

1 EXAMINATION BY EXAMINER GOETZE

2 EXAMINER GOETZE: Good morning. Did you  
3 have a discussion with the district geologist in the  
4 Aztec District regarding your cross sections and your  
5 selection of intervals?

6 THE WITNESS: No, I have not.

7 EXAMINER GOETZE: Was any correlation made  
8 with the adjacent -- I believe we have another unit, the  
9 Betonnie Tsosie Wash Unit to the east. Is there type  
10 section carryover from there or is that something out of  
11 your realm?

12 THE WITNESS: It does carry over from there.  
13 Correlations are very good between this project area and  
14 the adjacent --

15 EXAMINER GOETZE: We are looking at the same  
16 target interval?

17 THE WITNESS: Yes.

18 EXAMINER GOETZE: And as far as the proposed  
19 wells in Exhibit 5, basically that's a generic type of  
20 presentation; it's not really presented as a plan yet to  
21 the BLM?

22 THE WITNESS: No. We have not presented  
23 this plan to the BLM. To the best of our knowledge,  
24 this is how we'd layout the plans if we were to drill  
25 the wells tomorrow.

1 EXAMINER GOETZE: I have no further  
2 questions. Thank you.

3 EXAMINATION BY EXAMINER JONES

4 EXAMINER JONES: Okay. So to continue with  
5 that. But this would be what you would recommend to  
6 your management, as far as drilling from southeast to  
7 northwest?

8 THE WITNESS: Yes.

9 EXAMINER JONES: And even if it includes  
10 those two shorter laterals or shorter horizontals?

11 THE WITNESS: Correct. At this point --  
12 well, it probably wouldn't be economic at today's  
13 prices, but at a future price tag those would be...

14 EXAMINER JONES: So where would you drill  
15 your first one?

16 THE WITNESS: The first well would probably  
17 be the longest well through the center of the section.  
18 And we do have an existing permit as Mona Binion  
19 testified. That is from a pad in the M location of  
20 section 11.

21 And it is currently permitted to drill east  
22 to west across the south half of the south half of  
23 section 10. We would sundry that to drill the long well  
24 across the center of the section transverse.

25 EXAMINER JONES: Is that proposed to the

1 BLM?

2 THE WITNESS: We haven't proposed the sundry  
3 yet, but that would be our plan as soon as this project  
4 area --

5 EXAMINER JONES: The APD is in to their  
6 office?

7 THE WITNESS: Yes, for the east to west  
8 well.

9 EXAMINER JONES: I guess I just didn't see  
10 it in the OCD records yet. So BLM has to do it first,  
11 and then they send it back to OCD to put it on their  
12 records.

13 THE WITNESS: Okay. I may be mistaken, but  
14 I was pretty sure that was approved.

15 EXAMINER JONES: An APD number?

16 We must have a problem here because when I  
17 pulled up that section, it only showed -- it showed  
18 three wells, but they were all plugged. And they were  
19 all in Unit letter I, though. So there may be issue  
20 with our data entry or something. That is probably what  
21 it is.

22 But if this -- is this in the area? Do you  
23 know if the proposed Basin Mancos Oil Pool -- in other  
24 words, if that comes into effect, this would be sucked  
25 into that big black hole of the pool and it would

1 actually take care of the spacing? In other words, you  
2 could probably drill your wells a little bit further if  
3 you wanted to?

4 THE WITNESS: I believe so. I'm not too  
5 familiar with that pool as it's being set up. But I  
6 believe that is true.

7 EXAMINER JONES: Your gamma rays, are  
8 these -- is it pretty indicative of potassium or does it  
9 have some radioactive -- I mean, the thorium uranium?

10 THE WITNESS: Yeah, I believe it's more  
11 indicative of potassium. I'm sure there's some uranium  
12 in there as well. But TOC is fairly low throughout the  
13 section.

14 EXAMINER JONES: Okay. So your first target  
15 is the Gallup sands. And where would that be on like  
16 Exhibit 7? Where would you -- where would you land your  
17 lateral?

18 THE WITNESS: That would be in the lower  
19 part of the Gallup. It's basically in the lower half of  
20 the Gallup.

21 EXAMINER JONES: So where it says "Base  
22 Gallup," would that be above that line?

23 THE WITNESS: Right. Roughly 50 feet above  
24 that line we'd land. And then we may drill up section  
25 or just try to keep it in that interval.

1 EXAMINER JONES: Okay. Now, that Nageezi  
2 Gallup Pool, where is that sand that that Nageezi Gallup  
3 Pool was going after? Where were they completing their  
4 vertical wells?

5 THE WITNESS: Generally they would complete  
6 the entire Gallup. And I believe some of them may have  
7 completed the Dakota, but I'm not sure on that.

8 EXAMINER JONES: Okay. But it doesn't  
9 include the Dakota -- does it? --

10 THE WITNESS: No.

11 EXAMINER JONES: -- it's just a Gallup pool?

12 THE WITNESS: Correct.

13 EXAMINER JONES: So they were shooting for  
14 some sands in here somewhere. And it's just kind of  
15 hard for me to see the sands on this.

16 THE WITNESS: I believe on both of these  
17 cross sections, the perforations, they're fairly faint,  
18 but they are shown in pink in the depth column.

19 EXAMINER JONES: Okay. Yeah, there they  
20 are. So they just moved uphole hitting the sands and --

21 THE WITNESS: And, also, I should point out,  
22 we do have felspar rich sands in here which cause a clay  
23 signature on the gamma ray. It looks like it's more  
24 potassium rich clays, but, in fact, they are felspar  
25 rich sands.

1 EXAMINER JONES: What does that do to your  
2 permeability and porosity?

3 THE WITNESS: We still appear to have  
4 excellent perm and porosity in those sands. They just  
5 don't look like sands in the gamma ray log.

6 EXAMINER JONES: Okay. So that's felspar or  
7 igneous? Phil?

8 EXAMINER GOETZE: Yes, they are.

9 EXAMINER JONES: So you got some events that  
10 were happening during this time?

11 THE WITNESS: Yes. They are eroded sand  
12 grains from igneous into regions distant.

13 EXAMINER JONES: So you would be drilling  
14 basically underneath where they perforated and fracking  
15 up into those sands, it sounds like?

16 THE WITNESS: In some cases, yes. If you  
17 look at cross section B, B Prime, in that case, we would  
18 be targeting in their upper set of perforations, near  
19 5,200 feet in the Federal 1541 well. The second well  
20 from the right.

21 EXAMINER JONES: Okay.

22 THE WITNESS: And that well they targeted  
23 the lower Gallup with their vertical perforations,  
24 targeting that same interval.

25 EXAMINER JONES: Okay. So would you be

1 developing all the -- do you anticipate possibly  
2 developing all of the 40-acre Nageezi spacing units that  
3 would be in this project area, which would be over in  
4 the west half?

5 In other words, if you -- if you had -- if  
6 you were able to drill all the wells you wanted to  
7 drill, would you end up developing -- penetrating all of  
8 those?

9 THE WITNESS: Yes, we would.

10 That well that's shown on the development  
11 plan, the short well furthest to the southwest, would  
12 just cover that southwesternmost 40.

13 EXAMINER JONES: So this downhole commingle  
14 that you are asking for, that would be 50/50 in the  
15 whole section upfront. So with every barrel of oil  
16 coming out, half of that would go to Nageezi Gallup and  
17 half would go to the Basin Mancos from the start; is  
18 that correct? Every well would be 50/50?

19 THE WITNESS: Yes, I believe that's correct.

20 EXAMINER JONES: A 50/50 completion?

21 MS. BINION: That's the way the C-107 is  
22 filed, yes, 50/50.

23 EXAMINER JONES: Okay. I don't have any  
24 more questions, unless these guys do.

25 EXAMINER GOETZE: No, no more questions.

1 MR. BROOKS: I would like to ask a couple of  
2 questions if I may.

3 EXAMINATION BY MR. BROOKS

4 MR. BROOKS: I think this may have already  
5 been covered, but I just want to clarify a little bit.

6 This Exhibit, I guess it's Exhibit 5 that  
7 you have, this one, the one with the section 10, with  
8 one of the proposed wells shown. If I just eyeball  
9 this, it appears that this long well that goes from the  
10 northwest corner of 10 down to -- from the -- from the  
11 region around the northwest corner of 10 down to the  
12 southeast corner, it would look like it goes right  
13 through the -- right along the transverse and,  
14 therefore, it would go through the center of the  
15 section.

16 THE WITNESS: Uh-huh.

17 MR. BROOKS: And you said that -- as I  
18 recall in response to Mr. Jones's question -- that the  
19 farthest northeasterly of those wells -- I forget  
20 whether you were talking about the farthest  
21 northeasterly or the farthest northwesterly, but you  
22 said that those would pick up the northeast quarter of  
23 the northeast quarter and the southwest quarter of the  
24 southwest respectively if you drilled this entire plan;  
25 is that correct?

1 THE WITNESS: Yes.

2 MR. BROOKS: Okay. Now, if you accept the  
3 view that some people have taken that if a well goes  
4 through the center -- goes through the four corners  
5 between two -- between -- between four 40-acre spacing  
6 units -- do you understand what I mean?

7 THE WITNESS: I believe so.

8 MR. BROOKS: Okay. But it doesn't develop  
9 any of them by virtue of including that corner, which  
10 seems strange to me -- but I have run into people who  
11 believe that that's what our rule says -- then you could  
12 achieve the same result, I would assume, could you not,  
13 by shifting all the wells just a few feet off the  
14 corner?

15 In other words, if the Division were of the  
16 opinion that the farthest northeasterly of those wells  
17 did not develop the northwest quarter of the northwest  
18 quarter by virtue of being through the -- going through  
19 the crosshairs there --

20 THE WITNESS: Right.

21 MR. BROOKS: -- at the four corners of the  
22 various subdivisions of the northeast quarter, you could  
23 shift the well slightly to the northwest, and then it  
24 would include the northwest quarter, the northwest  
25 quarter?

1 THE WITNESS: Right.

2 MR. BROOKS: And you would have to shift the  
3 farthest southwest quarter of the well the other  
4 direction?

5 THE WITNESS: Yes.

6 MR. BROOKS: What I can't be sure of  
7 myself -- and maybe you plotted it out, I haven't -- is  
8 could you shift -- could you shift the wells in such a  
9 way that they would still penetrate all 16 quarter,  
10 quarters within section 10, and still just drill five  
11 wells and not six?

12 THE WITNESS: Yes. And I believe the way  
13 even the southwesternmost and northeasternmost wells are  
14 currently laid out in this figure, they actually do  
15 penetrate those quarter, quarter sections. They aren't  
16 right on the corner there. They're --

17 MR. BROOKS: You are a geologist, right?

18 THE WITNESS: Yes.

19 MR. BROOKS: You are not a drilling  
20 engineer?

21 THE WITNESS: No.

22 MR. BROOKS: So you wouldn't be the person  
23 to whom I would ask can you actually plan to drill a  
24 well through the four corners of the four quarter,  
25 quarter sections and be reasonably certain that it

1 actually will penetrate that exact point?

2 THE WITNESS: Right. That sounds  
3 unreasonable to me at this point.

4 MR. BROOKS: Well, that's a question for a  
5 drilling engineer. And so many things can be done these  
6 days that would have sounded unreasonable a few years  
7 ago, so I don't know.

8 MS. KESSLER: To remind the Examiners, the  
9 east half of the section is actually Basin Mancos Gas  
10 Pool, so it's just ~~120~~<sup>320</sup>-acre ~~spacing~~<sup>well</sup> unit.

11 MR. BROOKS: Well, I'm basically trying to  
12 explore the ways these things can be plotted, is the  
13 basis of my question.

14 Now, I believe you also said in response to  
15 Mr. Jones's question that the short wells depicted in  
16 the northwest -- in the northeast and southwest portions  
17 of section 10 would have been economic at some price  
18 that may have existed in the reasonably --

19 THE WITNESS: Yes.

20 MR. BROOKS: -- in the reasonably recent  
21 past --

22 THE WITNESS: Correct.

23 MR. BROOKS: Though not at the present?

24 THE WITNESS: Correct.

25 MR. BROOKS: It may be questionable whether

1 anything is economic at the present prices.

2 I think that's all I have.

3 EXAMINER JONES: I guess one more  
4 question -- ~~Bill~~ <sup>PAUL</sup> might have a question?

5 EXAMINER GOETZE: No, I don't.

6 EXAMINER JONES: The effective date of this  
7 would not be -- you are not asking for it to be -- us to  
8 wait until you develop all of them before the project  
9 area would be in effect, are you?

10 MS. KESSLER: No, Mr. Examiner.

11 EXAMINER JONES: You want it to be  
12 immediately allocated to the whole section, basically,  
13 all nine spacing units?

14 MS. KESSLER: Correct.

15 EXAMINER JONES: And you are not asking for  
16 any allowable increases or anything?

17 MS. KESSLER: Not at this time.

18 EXAMINER JONES: Hopefully you'd have that  
19 issue. I don't think we have anything else.

20 Thank you very much, Mr. Graven. Do you  
21 have another witness.

22 MS. KESSLER: No. That concludes our  
23 presentation.

24 EXAMINER JONES: Okay. With that, let's  
25 take case 15416 under advisement. And this docket is



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

7 REPORTER'S CERTIFICATE

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