

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

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

APPLICATION OF ENCANA OIL & GAS
USA, INC. FOR APPROVAL OF THE
HUTTON CANYON UNIT, CREATION OF
A NEW POOL FOR HORIZONTAL
DEVELOPMENT WITHIN THE UNIT AREA,
AND FOR ALLOWANCE OF 330-FOOT
SETBACKS FROM THE EXTERIOR OF THE
PROPOSED UNIT, SAN JUAN COUNTY,
NEW MEXICO.

CASE NO. 15210

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 2, 2014

Santa Fe, New Mexico

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

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, October 2, 2014, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
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1 APPEARANCES
 2 FOR APPLICANT ENCANA OIL & GAS USA, INC.:

3 GABRIELLE A. GERHOLT, ESQ.
 HOLLAND & HART
 4 110 North Guadalupe, Suite 1
 Santa Fe, New Mexico 87501
 5 (505) 988-4421
 gagerholt@hollandhart.com
 6

7 ALLOTTEES ALSO PRESENT: Ms. Lillie Rose Martinez
 Ms. Ruth Maggard
 8 Ms. Betonie (and Family,
 Ms. Seresa M. Yazzie)
 9

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1 (9:25 a.m.)

2 EXAMINER DAWSON: Good morning, ladies and
3 gentlemen. My name is Scott Dawson. I'm the Deputy
4 Director of the Oil Conservation Division and hearing
5 officer for today's cases.

6 To my left and to your right is Gabriel
7 Wade. He's legal counsel for the Oil Conservation
8 Division.

9 And today we are going to hear Cases 15210,
10 15211 and 15212. They're applications of Encana. The
11 first one we'll hear is Case 15210. It's an application
12 of Encana Oil & Gas USA, Incorporated for approval of
13 the Hutton Canyon Unit, creation of a new pool for
14 horizontal development within the unit area and for
15 allowance of 330-foot setbacks from the exterior of the
16 proposed unit, San Juan County, New Mexico.

17 At this time I'm going to ask for
18 appearances and witnesses.

19 MS. GERHOLT: Good morning, Mr. Examiner.
20 Gabrielle Gerholt, with the Santa Fe office of Holland &
21 Hart, Encana. I have two witnesses, Skylar Fast and
22 Erik Graven.

23 And, Mr. Examiner, may I approach with the
24 exhibits?

25 EXAMINER DAWSON: Yes, you may.

1 Is there anyone else who wants to make an
2 appearance or any other witnesses?

3 I see there are some allottees in the
4 crowd, and I didn't know if any of the allottees had
5 anything to say or wanted to --

6 MS. GERHOLT: Mr. Examiner, if I may, this
7 is just federal lands, the Hutton Canyon.

8 EXAMINER DAWSON: All right. Thank you.

9 MS. MARTINEZ: I have a request to receive
10 a copy of the exhibits for Case Number 15212. Can we
11 have that?

12 MS. GERHOLT: I have extra exhibits.

13 (The court reporter requested the name of
14 the audience member.)

15 MS. MARTINEZ: Lillie Rose Martinez.

16 EXAMINER DAWSON: Ms. Gerholt will provide
17 you the exhibits.

18 Is there anyone else that has any
19 appearances or any other witnesses for this case, 15210?
20 No?

21 MS. MAGGARD: My name is Ruth Maggard, and
22 I'd like to have an exhibit also.

23 MS. GERHOLT: And, ma'am, are you here for
24 the Blanco Wash or the Betonie Tsosie Wash?

25 MS. MAGGARD: Betonie Tsosie, I believe.

1 EXAMINER DAWSON: So that's Case 15211.

2 Okay. We can start now. Would you like to
3 make an opening statements, Ms. Gerholt?

4 MS. GERHOLT: Mr. Examiner, this is an
5 application by Encana to unitize federal acreage in the
6 San Juan Basin, and I would call Mr. Skylar Fast as my
7 first witness.

8 EXAMINER DAWSON: Okay. Mr. Fast, will you
9 please stand up?

10 And swear him in, please.

11 SKYLAR FAST,

12 after having been first duly sworn under oath, was
13 questioned and testified as follows:

14 EXAMINER DAWSON: Okay. Ms. Gerholt, you
15 may proceed.

16 DIRECT EXAMINATION

17 BY MS. GERHOLT:

18 Q. State your name for the record.

19 A. My name is Skylar Fast.

20 Q. And by whom are you employed and in what
21 capacity?

22 A. I'm a land negotiator with Encana Oil & Gas.

23 Q. Have you previously testified before the Oil
24 Conservation Divison?

25 A. No.

1 Q. Will you please tell the Examiners about your
2 education and experience pertaining to the --

3 A. Certainly. I graduated University of Colorado
4 with a degree in marketing and political science. From
5 there, I began work as a landman in the field, and I've
6 pursued continuous education courses through the AAPL.
7 I have a status of registered landman with the AAPL and
8 taking courses every year.

9 Q. For my benefit, would you please state what
10 AAPL stands for?

11 A. Yes. The American Association of Petroleum
12 Landmen.

13 Q. How long have you been a landman?

14 A. About three years.

15 Q. And has that entire experience been with
16 Encana?

17 A. It has not. I've served in multiple capacities
18 under contracts with clients such as EOG, Hess, Apache,
19 Tracker, and then moved on later with Encana.

20 MS. GERHOLT: Mr. Examiner, I would ask
21 that Mr. Fast be deemed an expert witness as a petroleum
22 landman based upon his education and experience.

23 EXAMINER GOETZE: Mr. Fast is so admitted.

24 Q. (BY MS. GERHOLT) I'll now draw your attention
25 to Exhibit Number 1, and if you can take that exhibit

1 out and identify it for us, please.

2 A. Yes. This will be a map showing an outline of
3 our proposed unit and existing oil and gas pools
4 surrounding it.

5 Q. And what is the proposed unit?

6 A. The Hutton Canyon Unit.

7 Q. And what lands are involved?

8 A. For this one, we're in lands that are in 23
9 North, 8 West, and that would be Sections 11, 14 and 13.
10 And we're also in 23 North, 7 West, and that would just
11 be Section 18.

12 Q. Is this just federal acreage?

13 A. It is.

14 Q. How many acres are within the unit?

15 A. About 2,560.

16 Q. What are the three things Encana is requesting
17 in its application today?

18 A. We're looking for approval of our unit. We're
19 looking for the creation of a pool for horizontal
20 development within the unit and also 330-foot setbacks
21 from the exterior of the unit.

22 Q. And does Encana expect primarily to produce oil
23 within this unit?

24 A: Yes.

25 Q. Is that why Encana's asking for the standard

1 330-foot setbacks as an exception in this case?

2 A. It is.

3 Q. Would Encana protest offsetting parties if
4 those parties seek to be within 330 feet of the outer
5 boundary of the Hutton Canyon Unit?

6 A. No.

7 Q. Turning your attention now to Exhibit Number 2,
8 what is Exhibit Number 2?

9 A. This is our federal unit agreement.

10 Q. And does it conform to the federal form?

11 A. It does, with two exceptions. It provides for
12 horizontal development and a single participating area.

13 Q. Is this an undivided unit?

14 A. Yes, it is.

15 Q. And can you identify for the Examiners how
16 production will be allocated within the unit?

17 A. Certainly. We'll do it proportionally on an
18 acreage basis.

19 Q. Now drawing your attention to Exhibit B of
20 Exhibit Number 2, what is Exhibit B?

21 A. This is our breakdown of leases and interests
22 within the unit.

23 Q. And is this breakdown what your records reflect
24 currently?

25 A. It is.

1 Q. Approximately -- not approximately. How many
2 leases are involved in this acreage?

3 A. Three leases.

4 Q. Now turning your attention to Exhibit C of the
5 unit agreement --

6 A. Yes.

7 Q. -- Exhibit C identifies two type logs; is that
8 correct?

9 A. That is correct.

10 Q. And do both type logs identify the unitized
11 interval?

12 A. They do.

13 Q. Do you know why there are two type logs
14 attached in Exhibit C?

15 A. From our assignment, that's how we are
16 identifying our lands within our Exhibit B. We're
17 making reference to both the Jeffers Federal and our
18 Dome wells.

19 Q. Is there any unleased acreage within the unit
20 boundary?

21 A. No.

22 Q. Does Encana hold all the interest in these
23 leases?

24 A. No.

25 Q. Do you anticipate commitment from the other

1 working interest owners?

2 A. I do anticipate commitment. We have received a
3 joinder from one already.

4 Q. Very good.

5 And the BLM will be a signatory for the
6 unit agreement; is that correct?

7 A. Yes.

8 Q. Have you received preliminary approval from the
9 Bureau of Land Management?

10 A. We have.

11 Q. And is that identified in Exhibit 3?

12 A. Yes.

13 Q. Is it your understanding that the BLM
14 understands the nature of the unitized area and
15 development plans?

16 A. It is.

17 Q. And has the BLM requested Encana drill an
18 obligation well?

19 A. Yes.

20 Q. Has that well been drilled?

21 A. No.

22 Q. Is there a time frame for that well?

23 A. There is. It's tentative. These wells jump
24 around a lot, but as of now, it's set for January of
25 next year.

1 Q. Now I'll draw your attention to Exhibit Number
2 4. Is Exhibit Number 4 my Affidavit of Notice of this
3 hearing?

4 A. It is.

5 Q. And if I can draw your attention to the letters
6 to the offsetting interest owners -- working interest
7 owners within the unit.

8 A. Uh-huh.

9 Q. Were those letters prepared on behalf of
10 Encana?

11 A. Yes.

12 Q. And were those letters provided to the working
13 interest owners in the offsets?

14 A. Yes, they were.

15 Q. And is that identified by the certified return
16 receipts that are included within Exhibit 4?

17 A. Yes.

18 Q. Were Exhibits 1 through 3 prepared by you or
19 compiled under your direction and supervision?

20 A. Yes.

21 MS. GERHOLT: Mr. Examiner, at this time I
22 would request and move the admission of Exhibits 1
23 through 4 into evidence, which includes my Notice of
24 Affidavit.

25 EXAMINER DAWSON: Exhibits 1 through 4 will

1 be so admitted, and your Notice of Affidavit will also
2 be admitted.

3 (Encana Exhibit Numbers 1 through 4 were
4 offered and admitted into evidence.)

5 MS. GERHOLT: Thank you, Mr. Examiner.
6 That concludes my examination of this witness.

7 EXAMINER DAWSON: Okay. I have no
8 questions for this witness. Thank you very much.

9 THE WITNESS: Thank you.

10 MS. GERHOLT: At this time I would request
11 Mr. Graven take the stand.

12 ERIK P. GRAVEN,
13 after having been first duly sworn under oath, was
14 questioned and testified as follows:

15 EXAMINER DAWSON: You may proceed,
16 Ms. Gerholt.

17 MS. GERHOLT: Thank you.

18 DIRECT EXAMINATION

19 BY MS. GERHOLT:

20 Q. Mr. Graven, would you please state your full
21 name for the record?

22 A. Erik Paul Graven.

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

24 A. By Encana Oil & Gas as a senior geologist.

25 Q. And how long have you been a senior geologist

1 with Encana?

2 A. Almost nine years.

3 Q. And do you have responsibilities within the San
4 Juan Basin in New Mexico?

5 A. Yes, I do.

6 Q. What are your -- do your responsibilities
7 include?

8 A. I'm a development geologist for the southern
9 San Juan Basin, including the areas that will be
10 discussed today.

11 Q. And how long have you had those
12 responsibilities?

13 A. Approximately ten months now.

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

16 A. Yes.

17 Q. And at that time, were your credentials
18 accepted as a senior geologist?

19 A. Yes.

20 MS. GERHOLT: Mr. Examiner, I would tender
21 Mr. Graven as an expert witness in petroleum geology.

22 EXAMINER DAWSON: Mr. Graven is admitted as
23 an expert.

24 MS. GERHOLT: Thank you.

25 Q. (BY MS. GERHOLT) Mr. Graven, are you familiar

1 with the horizon being unitized in the Hutton Canyon
2 Unit?

3 A. Yes, I am.

4 Q. Now I draw your attention to Exhibit Number 5.
5 Would you please identify this exhibit?

6 A. Yes. This is a type log for the proposed
7 Hutton Canyon Unit from the Dome Federal-13 41 well. It
8 shows a number of log tracks. The left-hand track is
9 the gamma ray log. The center track is the resistivity
10 log. On the right-hand track, we have the density and
11 neutron logs, with increasing density being represented
12 by the red shading on the density log.

13 This also shows the proposed unitized depth
14 with the bracket on the left side of the log. These
15 depths extend from 100 feet below the top of the Mancos
16 Shale through the Gallup, the Juana Lopez and the
17 Carlile, and the unitized depths bottom at the base of
18 the Greenhorn limestone or the top of the Graneros
19 Shale.

20 Q. Mr. Graven, is the Dome Federal 13 one of the
21 wells identified in Exhibit C to the unit agreement?

22 A. Yes, it is.

23 Q. And in your opinion, does the horizon
24 identified on Exhibit 5 extend across the unitized area?

25 A. Yes, it does.

1 Q. Have you brought with you today structure maps
2 and cross sections to show --

3 A. Yes.

4 Q. If we can now turn to Exhibit Number 6.

5 A. Exhibit Number 6 is a structure contour map on
6 top of the Mancos Shale. It shows the proposed unit
7 outlined in red. It also shows two cross-section lines,
8 A, A prime, across the northern portion of the unit, and
9 B, B prime cutting across the unit from west and then to
10 the north.

11 And then the type log shown in the last
12 exhibit is shown by the green hexagon.

13 The contour interval shown on this
14 structure map is 20 feet, and this represents very
15 gentle dips of less than two degrees to the north,
16 northeast with no indication of faulting.

17 Q. Moving to Exhibit 7, what does Exhibit 7 show?

18 A. Exhibit 7 is another structure map on top of
19 the Gallup, which is in the middle of our proposed
20 unitized interval. It shows the same cross sections,
21 the same type log, and it also shows very gentle dips to
22 the northeast of less than two degrees. There is no
23 indication of faulting.

24 Q. Now drawing your attention to Exhibit Number 8.

25 A. This is cross-section A, A prime that's shown

1 on the previous two exhibits. It shows Hutton Canyon's
2 proposed unitized depths on the left edge. It also
3 shows the same logs that were shown in the type well
4 [sic]. There are a few wells that have some gaps in the
5 log data, specifically in the gamma ray track, and not
6 all wells have the density data. But we do have
7 resistivity throughout all wells, and it shows very good
8 correlation of the unitized depths across the entire
9 cross section and across the unit.

10 Q. Now turning your attention to Exhibit Number 9,
11 would you please identify and discuss this for the
12 Examiners?

13 A. Yes. This is cross section B, B prime, which
14 was also shown on the two structure maps. Again, it
15 shows the same unitized depths with the same logs that
16 were used in the type log. Again, there are some
17 missing gamma ray intervals and porosity data on some of
18 the wells, but, again, the resistivity log is continuous
19 throughout each of the wells, and it does show good
20 continuity of the reservoir across the unit.

21 Q. And, Mr. Graven, is the interval in the --
22 continuous across the Hutton Canyon Unit area?

23 A. Yes, it is.

24 Q. And in your opinion, are there any faults,
25 pinch-outs or other geologic impediments that will

1 prevent the acreage from contributing to the overall
2 production in the interval?

3 A. No, there are not.

4 Q. And can this unitized area, in your opinion,
5 effectively and efficiently be developed under a unit
6 plan?

7 A. Yes.

8 Q. I now draw your attention to Exhibit Number 10.
9 Are you familiar with the pools currently in existence
10 within the proposed unit area?

11 A. Yes, I am.

12 MR. GERHOLT: And with regards to Exhibit
13 10, if I could have the Examiners draw their attention
14 to the Hutton Canyon, which is in the lower, middle
15 portion of the exhibits.

16 Q. (BY MS. GERHOLT) Mr. Graven, is it your
17 understanding that the white portions within the Hutton
18 Canyon are the Basin-Mancos gas pool?

19 A. Yes, that's correct.

20 Q. That small portion that I believe is the purple
21 outline, is that the Lybrook-Gallup?

22 A. Yes, it is.

23 Q. And are the reservoir fluids consistent between
24 these pools?

25 A. Yes, they are. The BTU and the oil API data

1 that is shown on this map is very consistent across this
2 whole area, and there's every reason to believe that it
3 will be consistent across as well.

4 Q. Consistent. Does that mean compatible?

5 A. Yes. It means the reservoir fluids are
6 essentially the same.

7 Q. And is Encana expecting the wells within the
8 unit to be oil wells?

9 A. Yes, it is.

10 Q. Are the technical characteristics of the
11 hydrocarbons within the current pools within this
12 unitized area essentially identical?

13 A. Yes, they are.

14 Q. And are the pools within the same vertical
15 horizon?

16 A. Yes, they are.

17 Q. Will the pressure gradients be relatively the
18 same within the unitized area?

19 A. Yes. There are publicly available pressure
20 maps that show a constant pressure gradient across this
21 area.

22 Q. Does Encana expect cross-flow issues within the
23 unitized area?

24 A. No. Each individual horizontal well in this
25 unit will target a single interval, and there will be no

1 vertical commingling of the wells.

2 Q. Will the combination of those two pools into
3 one single pool for purposes of horizontal well
4 development result in any waste or loss of reserves?

5 A. No, it will not.

6 Q. And in your opinion, will Encana's request to
7 create a new pool within the unit for horizontal well
8 development be to prevent waste?

9 A. Yes. It will prevent waste.

10 Q. In your opinion, will the granting of this
11 application be in the best interest of conservation, the
12 prevention of waste to create a single pool for
13 horizontal development in this proposed unit area?

14 A. Yes.

15 Q. And were Encana Exhibits 5 through 10 prepared
16 by you or compiled under your direction and supervision?

17 A. Yes, they were.

18 MS. GERHOLT: Mr. Examiner, I would move
19 the admission of Exhibits 5 through 10 into evidence at
20 this time, and that concludes my examination of this
21 witness.

22 EXAMINER DAWSON: Okay. Exhibits 5 through
23 10 are so admitted as evidence.

24 (Encana Exhibit Numbers 5 through 10
25 were offered and admitted into evidence.)

CROSS-EXAMINATION

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BY EXAMINER DAWSON:

Q. I just have a couple of questions -- or just one question, actually. Will all data regarding well interference concerning setbacks and internal well spacing be made available to the Division as soon as possible?

A. Yes.

Q. One other question: I notice you had the Hutton Canyon Unit outlined there, and just below it says "Betonie Tsosie Wash Unit"?

A. Yes.

Q. How come you didn't incorporate those units together?

A. I'm not prepared to answer that.

Q. Is this a reason? Because they have contiguous borders.

MS. GERHOLT: That may be a better question for Mr. Fast, if you would like to ask him to retake the stand, since he's the landman.

EXAMINER DAWSON: Yes, if he could, please.

MS. GERHOLT: May Mr. Graven be excused?

EXAMINER DAWSON: Yes.

Mr. Graven, you may be excused. Thank you very much.

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SKYLAR FAST,

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

CROSS-EXAMINATION

BY EXAMINER DAWSON:

Q. Hello, Mr. Fast. I just wanted -- the question I asked was: Why wasn't the Hutton Canyon Unit and the Betonie Tsosie Wash Unit -- why didn't you make those into one unit because they have contiguous -- or they have contiguous borders?

A. Correct. As I understand, our ownership was much further along in the Hutton Canyon, and we were able to get that together much faster. Our pieces fell into place quicker than expected on Betonie Tsosie, but we had already -- we had already formed our outline with Hutton Canyon and decided to move forward with that and Betonie Tsosie.

Q. Those are all the questions I have. You may be excused. Thank you very much.

A. You're welcome.

MS. GERHOLT: Mr. Examiner, that concludes my presentation in this case.

EXAMINER DAWSON: Case Number 15210 will be taken under advisement. That concludes this hearing for 15210.

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Thank you very much, Ms. Gerholt.
(Case Number 15210 concludes, 9:48 a.m.)

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

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

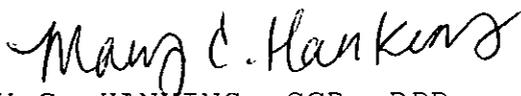
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

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

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



MARY C. HANKINS, CCR, RPR
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