

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

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

ORIGINAL

APPLICATION OF ENCANA OIL & GAS
(USA) INC. TO AMEND ORDER,
ORDER R-14067, TO EXPAND THE
VENADO CANYON UNIT, SANDOVAL
COUNTY, NEW MEXICO.

CASE NO. 15337
(Reopened)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 9, 2016

Santa Fe, New Mexico

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BEFORE: SCOTT DAWSON, CHIEF EXAMINER
MICHAEL McMILLAN, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, Michael McMillan, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday, June
9, 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: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
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(505) 843-9241

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APPEARANCES

FOR APPLICANT ENCANA OIL & GAS (USA), INC.:

JORDAN L. KESSLER, ESQ.
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EXHIBITS OFFERED AND ADMITTED

Encana Exhibit Numbers 1 through 6	9
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1 (10:54 a.m.)

2 EXAMINER DAWSON: 15337, reopened. This
3 is the application of Encana Oil & Gas (USA),
4 Incorporated to amend Order R-14067 to expand the Venado
5 Canyon Unit, Sandoval County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,
8 from the Santa Fe office of Holland & Hart, on behalf of
9 the Applicant.

10 EXAMINER McMILLAN: Any other appearances?

11 MS. KESSLER: I have two witnesses today.
12 They've already been sworn in.

13 EXAMINER DAWSON: Two witnesses for this
14 case. They have been sworn in already today for the
15 previous cases. And they will be the same witnesses for
16 this case as they were for the last cases, so they don't
17 need to be sworn in.

18 Okay. So we can go ahead and start.

19 Ms. Kessler, please call your first
20 witness.

21 MONA BINION,
22 after having been previously sworn under oath, was
23 questioned and testified as follows:
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DIRECT EXAMINATION

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BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiner with whom you're employed and in what capacity.

A. My name is Mona Binion. I'm employed by Encana Oil & Gas (USA), Inc., and my responsibilities include the management of the land functions in the San Juan Basin of New Mexico.

Q. Were your credentials as a petroleum landman accepted today in front of the Division and made a matter of record?

A. Yes, they have been.

Q. Are you familiar with the application on the Venado Canyon case?

A. Yes, I am.

Q. Are you familiar with the status of the lands in the subject area?

A. Yes, I am.

MS. KESSLER: Mr. Examiners, I'd again tender Ms. Binion as an expert in petroleum land matters.

EXAMINER DAWSON: Ms. Binion is qualified as an expert in petroleum land matters.

Q. (BY MS. KESSLER) Ms. Binion, can you please

1 turn to Exhibit 1? And is this the order that is the
2 subject of the hearing today?

3 A. Yes, it is.

4 Q. That's Order Number 14067 for the Venado Canyon
5 Unit?

6 A. Yes.

7 Q. Was this issued back in October of 2015?

8 A. Yes, it was.

9 Q. And it approved the Venado Canyon Unit?

10 A. Yes, it did.

11 Q. What type of acreage does the Venado Canyon
12 Unit include?

13 A. The unit, as it currently exists, is federal
14 and privately held fee land.

15 Q. Does this order identify the unitized interval?

16 A. Yes, it does.

17 Q. And is it correct that in this order you did
18 not seek and you are not seeking today a pool for the
19 acreage within the unit?

20 A. That's correct. There is no pool being
21 requested today and was not created under this existing
22 order.

23 Q. Has the order -- does the order require final
24 approval from the BLM in order to become effective?

25 A. Yes, it does.

1 Q. And did the BLM, in fact, provide final
2 approval for this?

3 A. Yes. The BLM provided final approval to the
4 Venado Canyon Unit. The unit is established and is in
5 effect. However, that approval was conditioned upon
6 Encana seeking an expansion of this unit as required
7 under that approval letter.

8 Q. So following the Division's entry of Order
9 14067, the BLM then requested that Encana include
10 additional acreage --

11 A. Correct.

12 Q. -- for prior approval?

13 Let's turn to Exhibit 2. Is this a map
14 showing the unitized area and the expanded acreage?

15 A. Correct.

16 Q. What does Encana seek under this application?

17 A. Encana seeks the Division's approval for the
18 expansion of the Venado Canyon Unit and Order R-14067 to
19 include the expansion lands.

20 Q. So the unit will go from a total of
21 approximately 4,320 acres to 5,280 acres; is that
22 correct?

23 A. Correct. And those acres in the expansion area
24 consist of the federal only.

25 Q. Is that unleased federal acreage and --

1 unleased and some leased?

2 A. Yes.

3 Q. Is Exhibit 3 a revised copy of the unit
4 agreement governing the enlarged unit area?

5 A. Correct. This is a unit agreement form
6 substantially on the same form as what was originally
7 put in place for the Venado Canyon Unit when it was
8 originally approved. The difference being, in this form
9 there are minor edits to accommodate compensatory
10 royalty payment to the federal government in the
11 unleased acreage that is to be brought in under this
12 expansion.

13 Q. But the unit will still be a single
14 participating area, correct?

15 A. Correct. And it will be limited for horizontal
16 drilling and also be limited for the Mancos interval,
17 the same interval that was defined in the original unit.
18 And it will just be a larger size, and it will include
19 unleased federal lands.

20 Q. Does the unit agreement have a revised API
21 [phonetic]?

22 A. Yes, it does.

23 Q. You already mentioned the unitized interval
24 will remain the same, correct?

25 A. Yes.

1 Q. Exhibit 4 is the same type log that is
2 referenced in Order R-14067, correct?

3 A. Correct.

4 Q. Have the working interests in the original area
5 agreed to the surface --

6 A. Yes.

7 Q. And what about the interest owners in the
8 expanded area?

9 A. Yes, same owners.

10 Q. Have you visited with the BLM and the Oil
11 Conservation Division about this expansion?

12 A. Yes.

13 Q. Is Exhibit 5 an approval letter of the expanded
14 acreage from the BLM?

15 A. Yes, it is.

16 Q. Has Encana already drilled the initial
17 development well for this unit?

18 A. Yes. The initial development well is the
19 Lybrook P03 2206 01H.

20 Q. And there are actually, in fact, two unit wells
21 in this unit?

22 A. Correct.

23 Q. And you mentioned that Encana does not seek a
24 new pool for this unit?

25 A. Correct. The initial order directs the pool

1 rules of the Lybrook-Gallup Pool to apply.

2 Q. Is this area within the proposed boundaries in
3 the Lybrook; Mancos-Gallup Pool?

4 A. Yes, it is.

5 Q. So on paragraph four, page 5, Order 14067 under
6 this unit, is incorporated in the pool for the Lybrook;
7 Mancos-Gallup oil pool; is that correct?

8 A. That's correct.

9 Q. Are the notices to working interests and
10 overriding royalty interests included as Exhibit 6?

11 A. Yes.

12 Q. And have they received a copy of the
13 application and the unit agreement?

14 A. Yes.

15 Q. Were Exhibits 1 through 5 prepared by you or
16 compiled under your direction and supervision?

17 A. Yes.

18 MS. KESSLER: I'd move the admission of
19 Exhibits 1 through 6, including my affidavit,
20 Mr. Examiner.

21 EXAMINER DAWSON: Okay. Exhibits 1 through
22 6 will be admitted to the record.

23 (Encana Oil & Gas Exhibit Numbers 1 through
24 6 are offered and admitted into evidence.)

25 MS. KESSLER: And I'm finished with my

1 direct examination.

2 EXAMINER DAWSON: Okay.

3 CROSS-EXAMINATION

4 BY EXAMINER DAWSON:

5 Q. Ms. Binion, can you elaborate on the BLM? They
6 are not requiring compensatory royalties on unleased
7 acreage? Can you elaborate on -- is this a new thing
8 that they have initiated recently or --

9 A. No. It's in the CFR. It's a requirement. If
10 a tract of unleased federal land gets included in any
11 spacing unit or pooled unit of any kind, it's required
12 that compensatory royalties be paid the government.

13 Q. Okay. Are you -- did you request that those
14 unleased federal lands within the unitized area be
15 included in a lease sale coming up or --

16 A. They've been nominated for several years. They
17 just roll over to the next -- there's been opposition
18 for those lands to be leased. Surface ownership, I
19 believe, all or most of them are the Navajo Tribe, and
20 there are certain groups that have filed oppositions to
21 the leasing of these lands.

22 Q. Okay. Those tracts -- those unleased tracts
23 will keep their proportion and share of the production
24 from the unit, correct?

25 A. Correct.

1 Q. They will be allocated that and royalties will
2 be paid --

3 A. Correct.

4 Q. -- on that unleased acreage?

5 A. Yes.

6 Q. And when you pay royalties on that unleased
7 acreage, does that go to FIMA, or how does that work?

8 A. It goes to the BLM. It goes to O&R or the same
9 as any other federal lease. The way I understand it,
10 the government creates a dummy lease number as though
11 there is a lease so that they can record the royalty
12 received on that tract.

13 Q. Okay. And you will not -- if another operator
14 entity wishes to drill on that 330-foot from the outline
15 of the unit, you guys will not contest it?

16 A. Correct.

17 Q. Okay. And any wellbore communication will
18 be -- will be documented and sent to the Division?

19 A. That's my understanding, yes. It's not under
20 my area of responsibility, but I don't know any
21 objection to that.

22 Q. Okay. That's all the questions I have. Thank
23 you.

24 MR. McMILLAN: I don't have any questions.

25 EXAMINER DAWSON: David?

1 EXAMINER BROOKS: Just one.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. Is there a BLM regulation or a provision in the
5 form of unit agreement that requires state approval
6 because there is fee land in this unit?

7 A. I'm not aware of any federal regulation that
8 requires state approval.

9 Q. And there's no state land issue?

10 A. No, sir.

11 Q. That's the reason I asked the question, because
12 I'm not aware of any state regulation that requires our
13 approval in this case, and I'm wondering if I'm missing
14 something.

15 Thank you. I just like to be as educated
16 as I can.

17 MS. KESSLER: I would point out, though,
18 Mr. Examiner, there is some approval -- just doing a
19 quick re-read of the unit agreement, it does look like
20 there is Division approval.

21 EXAMINER BROOKS: Well, I thought there was
22 something in BLM, either in their regs or the form of
23 unit agreement, that afforded [sic] that requirement
24 when there is fee land, but I haven't been able to find
25 it.

1 MS. KESSLER: I'm looking on page 1 of the
2 unit agreement, which is Exhibit 3.

3 EXAMINER BROOKS: Okay.

4 MS. KESSLER: There are several "whereas"
5 clauses.

6 EXAMINER BROOKS: Yes.

7 MS. KESSLER: I'm looking at the second
8 "whereas" -- I'm sorry -- the third: "Whereas, the Oil
9 Conservation Division of the New Mexico Energy and
10 Minerals Department hereinafter referred to as
11 'Division,' is authorized by an act of the Legislature
12 to approve this agreement and the conservation provision
13 thereof."

14 EXAMINER BROOKS: Well, that statement is
15 only true in the broadest and generalist terms
16 (laughter). I'll accept it.

17 Thank you. Let's move on. I'm through.

18 EXAMINER DAWSON: Okay. Fine. Thank you,
19 Ms. Binion. That's it.

20 Go ahead and call Mr. Graven up.

21 ERIK GRAVEN,
22 after having been previously sworn under oath, was
23 questioned and testified as follows:
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DIRECT EXAMINATION

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BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiners by whom you're employed and in what capacity.

A. Erik Graven. I'm employed as a senior geologist by Encana Oil & Gas for the San Juan Basin of New Mexico.

Q. Have you previously testified today before the Oil Conservation Division?

A. Yes.

Q. And your credentials as a petroleum geologist were accepted and made a matter of record?

A. Yes.

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

A. Yes, I am.

Q. And you conducted a study of the lands that are the subject of the application?

A. Yes, I have.

MS. KESSLER: I tender Mr. Graven as an expert petroleum geologist.

EXAMINER DAWSON: Mr. Graven is qualified as an expert in petroleum geology.

Q. (BY MS. KESSLER) Can you please turn to Exhibit

1 7. Are you familiar with the horizon that is unitized
2 over the proposed unit?

3 A. Yes, I am. It is shown here on Exhibit 7 with
4 a bracket along the left-hand side of the type log. The
5 type log is on the Double Ought #1 well near the center
6 of the unit. It shows a gamma-ray log and resistivity
7 and porosity log in this well, and it also shows the
8 unitized interval, which extends from 100 feet below the
9 top of the Mancos Shale down to the base of the
10 Greenhorn Limestone and the top of the Granados Shale.

11 Q. Is this the same lot that was identified in
12 Order R-14067?

13 A. Yes.

14 Q. Does the proposed unitized interval extend --
15 extend across the acreage that -- add to the unit?

16 A. Yes, it does.

17 Q. Please turn to Exhibit 8 and identify this for
18 the Examiners.

19 A. Yes. Exhibit 8 is a structured contour map on
20 top of the Mancos Shale that has contour intervals of 20
21 feet, and it shows beds dipping gently downward to the
22 north-northeast at approximately two degrees.

23 There is no indication of any fault or
24 structural disturbances across the standard unit area.

25 (Loud construction noise from outside the

1 hearing room compromising integrity of the
2 record.)

3 A. It shows the type log shown in the previous
4 exhibit with a green hexagon, the Double Ought #1 well,
5 and it also shows two cross sections, A, A prime
6 extending north to south, and B, B prime extending from
7 southwest to northeast.

8 Q. It also shows the original and the proposed
9 expanded boundaries?

10 A. Yes. The original boundary is shown in brown,
11 and the proposed expanded boundary is shown in red.

12 (The court reporter interrupts the
13 proceedings to finish coughing.)

14 Q. (BY MS. KESSLER) Can you identify Exhibit 9?

15 A. Exhibit 9 is cross section A, A prime, which is
16 shown on the previous map. It shows five wells that
17 extend from north to south across the expanded unit
18 area. Each well contains a gamma-ray log in the
19 left-hand column, a resistivity log immediately right of
20 the depth track and, again, a porosity log in the far
21 right-hand track of each well.

22 It shows good continuity of the unitized
23 interval across the proposed expanded unit area, and
24 there is good correlation and relatively good thickness
25 of the unitized -- across the cross section.

1 Q. What is Exhibit 10?

2 A. Exhibit 10 is another cross section, cross
3 section B, B prime from south to west, northeast, across
4 the expanded unit area. Again, it shows the same logs
5 as in the previous cross section, again showing good
6 correlation of the unitized interval across the cross
7 section and good continuity of the unitized interval
8 across the expanded unit.

9 Q. Have you identified any geologic impediments
10 within the expanded acreage that would prevent the
11 acreage from being efficiently developed during the unit
12 plan?

13 A. No, I have not.

14 Q. In your opinion, will the application be in the
15 best interest of conservation, for the prevention of
16 waste and the protection of correlative rights?

17 A. Yes.

18 Q. What is Exhibit 11?

19 A. Exhibit 11 is a preliminary development plan
20 for the Venado Canyon Unit. It shows well sticks in
21 brown that would be proposed development wells. We have
22 begun preliminary identification of pad sites within
23 this unit and expect to be submitting applications for
24 permits later this year for a number of these wells.

25 It also shows the two wells that have

1 already been drilled within the unit extending from
2 north to south. The unit obligation well, as Mona
3 Binion identified, is the Lybrook P03 2306 -- 2206 01H
4 well. That's highlighted in green. And then
5 immediately adjacent to that well to the left is the 02H
6 well drilled off the same pad.

7 These are both very strong wells with
8 initial production rates around 400 to 450 barrels of
9 oil per day, so good commercial --

10 Q. Were Exhibits 7 through 11 prepared by you or
11 compiled under your direction and supervision?

12 A. Yes, they were.

13 MS. KESSLER: Move the admission of
14 Exhibits 7 through 11, Mr. Examiner.

15 EXAMINER DAWSON: Exhibit 7 through 11 will
16 be admitted to the record.

17 (Encana Oil & Gas Exhibit Numbers 7 through
18 11 are offered and admitted into evidence.)

19 MS. KESSLER: That concludes my direct.

20 CROSS-EXAMINATION

21 BY EXAMINER DAWSON:

22 Q. Okay. Mr. Graven, on those wells, the -- well,
23 the well, the Lybrook P3 2206 1H, how much gas is that
24 well making; do you know? Do you have an idea?

25 A. I don't know offhand. I believe the GOR is

1 less than 2,000, but I'm not certain of that. It is a
2 low GOR.

3 Q. When you see that GOR going down -- as you
4 drill further to the south, does it go down usually in
5 that area?

6 A. It's fairly consistent in this area.

7 Q. Yeah. Stays about the same?

8 A. Yeah.

9 Q. But going to the north? Is it north of the
10 unitized area?

11 A. Yeah. Several miles to the north, it begins to
12 increase.

13 Q. Probably 20, 30 miles?

14 A. Right.

15 Q. All right. On your cross sections, this
16 doesn't really indicate the target zone. But I know
17 it's within that Gallup interval, as marked on your
18 cross section.

19 A. Yes.

20 Q. It's mostly in the zones that indicate higher
21 porosities on the well logs?

22 A. Correct.

23 Q. And those are -- those are probably those zones
24 that are depicted from the Gallup to the base of the
25 Gallup, right in that area?

1 A. Yes.

2 Q. Is that most of the ones you're targeting?

3 A. Yes. Yes.

4 Q. Okay. That's all the questions I have. Thank
5 you.

6 EXAMINER McMILLAN: I don't have any
7 questions.

8 CROSS-EXAMINATION

9 BY EXAMINER BROOKS:

10 Q. You identified two names that were in the
11 Gallup zone. One of them was Tocito, which I call
12 Tocito. And which is the other one?

13 A. El Vado, or El Vado.

14 Q. El Vado.

15 Thank you. No further questions.

16 MS. KESSLER: I'd ask this case also be
17 taken under advisement.

18 EXAMINER DAWSON: Okay. Case Number 15337,
19 reopened, will be taken under advisement.

20 And that concludes Case Number 15337.

21 Thank you.

22 (Case Number 15337 concludes, 11:14 a.m.)

23

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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 _____*

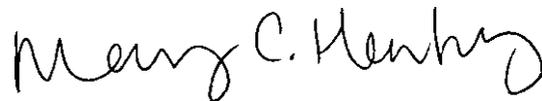
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3
4 CERTIFICATE OF COURT REPORTER

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

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

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

20 

21 MARY C. HANKINS, CCR, RPR
22 Certified Court Reporter
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2016
25 Paul Baca Professional Court Reporters