

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

APPLICATION OF ENCANA OIL & GAS  
(USA), INC. TO AMEND ORDER,  
ORDER R-14081, TO EXPAND THE  
NORTH ALAMITO UNIT AND THE  
CORRESPONDING NORTH ALAMITO UNIT;  
MANCOS POOL, SANDOVAL AND SAN  
JUAN COUNTIES, NEW MEXICO.

CASE NO. 15367  
(Reopened)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 9, 2016

Santa Fe, New Mexico

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

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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.

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APPEARANCES

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1 (11:16 a.m.)

2 (Loud construction noise from outside the  
3 hearing room compromising the integrity of  
4 the record.)

5 EXAMINER DAWSON: Case Number 15367,  
6 reopened. This is the application of Encana Oil & Gas  
7 (USA), Incorporated to amend Order R14081 to expand the  
8 North Alamito Unit and corresponding Alamito Unit;  
9 Mancos Pool, Sandoval and San Juan Counties, New Mexico.  
10 Call for appearances.

11 MS. KESSLER: Jordan Kessler with Holland &  
12 Hart on behalf of the Applicant.

13 EXAMINER DAWSON: Okay. Ms. Kessler, you  
14 have two witnesses, I presume?

15 MS. KESSLER: Correct.

16 MR. McMILLAN: And Seth McMillan with --  
17 (The court reporter requested Mr. Seth  
18 McMillan speak louder.)

19 MR. McMILLAN: Oh, of course you can't;  
20 we're practicing in the construction zone.

21 My name is Seth McMillan. I'm with  
22 Montgomery & Andrews. I'm here on behalf of WPX.

23 I don't have any witnesses today.

24 EXAMINER DAWSON: Okay.

25 MS. KESSLER: I'll call my first witness.

1                   EXAMINER DAWSON: Call your next witnesses.  
2                                   MONA BINION,  
3           after having been previously sworn under oath, was  
4           questioned and testified 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're employed and in what  
9           capacity.

10          A. My name is Mona Binion. I'm employed by Encana  
11          Oil & Gas (USA), Inc. I'm responsible for the land  
12          functions in the San Juan Basin of New Mexico.

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

15          A. Yes, I have.

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

18          A. Yes, they have.

19          Q. Are you familiar with the application to expand  
20          the North Alamito Unit?

21          A. I am.

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

24          A. Yes, I am.

25                                   MS. KESSLER: Once again, I'd tender

1 Ms. Binion as an expert in petroleum land matters.

2 EXAMINER DAWSON: Ms. Binion is qualified  
3 as an expert petroleum landman.

4 Do you have any objections?

5 MR. McMILLAN: No objections.

6 Q. (BY MS. KESSLER) Ms. Binion, please turn to  
7 Exhibit 1. Is this the order, 14081, that created the  
8 North Alamito Unit and corresponding oil pool?

9 A. Yes. This order created the existing unit oil  
10 pool subject to the implementation of the unit itself or  
11 effective on that date.

12 Q. And does the order identify the unitized  
13 interval?

14 A. Yes, it does.

15 Q. What lands -- what type of lands are within the  
16 North Alamito Unit?

17 A. There are state lands inside the federal -- the  
18 federal unit. There are federal lands, and there are  
19 Navajo allotted lands.

20 Q. Did the order require final approval from  
21 federal agencies to become effective?

22 A. Yes, it did.

23 Q. And does the BLM provide final approval?

24 A. No. We have not received final approval from  
25 the BLM.

1 Q. So the North Alamito Unit and the corresponding  
2 oil pool are not currently in effect, correct?

3 A. Correct.

4 Q. Looking at Exhibit 2, does this map show the  
5 existing unitized area in the proposed expansion area?

6 A. Yes, it does.

7 Q. What does Encana seek under this application?

8 A. Encana seeks the Division's approval to the  
9 expansion of the originally proposed North Alamito Unit  
10 outline and to expand the pool to be established under  
11 that order to correspond with the expanded outline as  
12 proposed.

13 Q. Let's see. The pink is the current unit,  
14 correct?

15 A. The current unit is outlined in purple and is  
16 colored pink. The explanation lands are in dark, bold  
17 black outline, and it's approximately 1,220 acres.

18 Q. I'd like to turn your attention to Sections 1  
19 and 12, which are within the bolded black lines. Are  
20 these sections currently committed to WPX's West Alamito  
21 Unit?

22 A. Yes, they are.

23 Q. And that's pursuant to Order R-14002?

24 A. Correct.

25 Q. Are you continuing to negotiate a trade with

1 WPX related to Sections -- Section 1 in the north half  
2 of Section 12?

3 A. Yes. Encana's currently under negotiations  
4 with WPX to assume ownership of the Mancos Formation  
5 underlying those lands.

6 Q. But you understand that the Division cannot  
7 issue an order with overlapping units, correct?

8 A. Yes. Correct.

9 Q. So are you asking the Division to hear  
10 testimony related to this unit today, and then once this  
11 trade is finalized, do you understand that WPX will  
12 remove the West Alamito Unit -- remove this acreage from  
13 the West Alamito Unit so the boundaries do not overlap?

14 A. Correct.

15 Q. So you're asking the Division to continue this  
16 case, in fact, to a time after which that acreage has  
17 been removed from the West Alamito Unit?

18 A. That's correct.

19 Q. Is Exhibit 3 a copy of the unit agreement  
20 governing the enlarged unit area?

21 A. Yes.

22 Q. Is this the same as the original unit  
23 agreement?

24 A. No, it is not.

25 Q. Okay. What are the differences?

1           A.    The difference in this form versus the form  
2   that was presented in the original hearing is the edits  
3   that have been made to this agreement to accommodate  
4   payment of compensatory royalty to the federal  
5   government and the BLM unleased federal lands.

6           Q.    And you've also revised Exhibits A and B,  
7   correct?

8           A.    Yes, we have.

9           Q.    And with the existing unit, the expanded unit  
10  will be operated as a participating area?

11          A.    Yes, it will.

12          Q.    Will only apply to horizontal wells?

13          A.    Yes, it will.

14          Q.    Has the unitized -- or will the unitized  
15  interval remain the same?

16          A.    Yes.

17          Q.    Does Exhibit 4, which is also Exhibit C to the  
18  unit agreement, identify the unitized interval?

19          A.    Yes, it does.

20          Q.    And, again, it's the same as referenced in  
21  Order 14087?

22          A.    The interval is the same, and it depicts the  
23  same interval.  There are a couple of updated, I think,  
24  corrections that were made to the terminology or the  
25  markers, but the interval itself is identified as the

1 same interval.

2 Q. Are the working interest owners aware of the  
3 expansion?

4 A. Yes.

5 Q. And has anyone objected?

6 A. No.

7 Q. And do you feel that you have a sufficient  
8 percent for control of the unit?

9 A. Yes.

10 Q. Have you visited with the State Land Office,  
11 BLM, FIMO and the Conservation Division about this  
12 expansion?

13 A. Yes, we have.

14 Q. Has BLM included a conditional approval letter?

15 A. Yes.

16 Q. Is that Exhibit 5?

17 A. Exhibit 5 is the June 2nd conditional approval  
18 letter from the BLM indicating it's a logical area  
19 designated for a federal unit. However, it does  
20 identify the overlap in some of the expansion lands with  
21 the West Alamito Unit operated by WPX, and their  
22 approval of this expansion is conditioned upon WPX's  
23 choice to eliminate those lands from the West Alamito  
24 Unit.

25 Q. FIMO is cc'd on this letter?

1 A. Yes.

2 Q. And FIMO will sign the unit agreement for the  
3 expanded acreage?

4 A. Yes. They will commit to the unit.

5 Q. Is Exhibit 6 a denial letter from the State  
6 Land Office?

7 A. Yes, it is.

8 Q. Can you explain that, please?

9 A. The representative that I spoke to with the  
10 State Commissioner's office indicated their concern with  
11 the expansion as it's proposed was the addition of the  
12 unleased federal acreage. I have not spoken directly to  
13 the Commissioner's office. I do have a meeting this  
14 afternoon with them and intend to pursue it further, but  
15 at this point they were not in favor of the expansion as  
16 it's been proposed.

17 Q. So as it stands, does the BLM require that you  
18 include these unleased federal tracts in the unit?

19 A. Yes. The BLM has commonly required that those  
20 unleased lands be included in this unit, which was the  
21 original reason for this expansion.

22 Q. But the State Land Office does not want those  
23 unleased federal tracts?

24 A. That is my understanding, yes.

25 Q. So you will continue to negotiate with both the

1 BLM and the State Land Office regarding the unleased  
2 tracts?

3 A. Yes.

4 Q. And today you're not asking the Division to  
5 take this case under advisement, but you're presenting  
6 the current state of the land matters?

7 A. Yes.

8 Q. So we will continue this case to such a time  
9 where Encana can update the Division on both the status  
10 of the lands with WPX and with the State Land Office?

11 A. Yes.

12 Q. Has Encana drilled an initial development well?

13 A. Yes, we have.

14 Q. What is that well? Actually, I'll ask you to  
15 turn back to Exhibit 2.

16 A. I believe that well -- and our next witness  
17 will be able to address this more directly. The unit  
18 agreement identifies the Lybrook H26 2307 01H as the  
19 initial well.

20 Q. Does Exhibit 2 show the pools within the area?

21 A. Yes, it does.

22 Q. What type of -- or which pools are within the  
23 expanded unit acreage?

24 A. The lands that are shown in the northeast  
25 quarter of Section 25, in Township 23 North, 7 West are

1 located within the existing Lybrook; Gallup Pool.

2 The lands in Section 35, the northeast  
3 quarter, regarding -- in 23 North, 7 West are in wildcat  
4 area.

5 And then the lands in Sections 1 and the  
6 north half of 12 and 22 North, 8 West are under the pool  
7 created by the Lybrook -- I'm sorry -- West Alamito Unit  
8 Pool under Order R-14002.

9 Q. Did you notify the offsetting interest owners  
10 of your application to expand this unit in the  
11 corresponding oil pool?

12 A. Yes. We notified those parties that were in  
13 pools that required larger setback than what we were  
14 requesting in this application. So those offset lands  
15 under pools that required the 660 setback have been  
16 notified.

17 Q. Pursuant to paragraph five, page 8 of the  
18 existing order, do you understand that the unit will be  
19 incorporated into any Lybrook; Mancos-Gallup Pool as  
20 approved?

21 A. Yes.

22 Q. And have you reviewed the proposed boundaries  
23 for the Lybrook; Mancos-Gallup Pool?

24 A. Yes.

25 Q. Does this acreage fall entirely within the

1 proposed Lybrook; Mancos-Gallup Oil Pool?

2 A. Yes, it does.

3 Q. Did Encana identify and provide notice to the  
4 allottees, working interest owners and overriding  
5 royalty interest owners within the expanded --

6 A. Yes, we did.

7 Q. Is that reflected in Exhibit 7?

8 A. Yes.

9 Q. And you also provided them a copy of the  
10 application and unit agreement?

11 A. Yes.

12 Q. Did you also publish notice of this application  
13 and hearing?

14 A. Yes. Notice of this hearing was published in  
15 both San Juan County and Sandoval County. However, the  
16 actual publication was not issued by Sandoval County, I  
17 think, until slightly after the deadline that was  
18 required for this hearing. So that is another reason  
19 for a continuance for this case under the current rules.

20 Q. Were Exhibits 1 through 6 prepared by you and  
21 compiled under your direction and supervision?

22 A. Yes, they were.

23 MS. KESSLER: I ask that Exhibits 1 through  
24 8 be admitted into the record.

25 EXAMINER DAWSON: Any objections?

1 MR. McMILLAN: No objection.

2 EXAMINER DAWSON: Exhibits 1 through 8 will  
3 be admitted to the record.

4 (Encana Oil & Gas Exhibit Numbers 1 through  
5 8 are offered and admitted into evidence.)

6 MS. KESSLER: That concludes my direct  
7 examination.

8 EXAMINER DAWSON: Okay.

9 MR. McMILLAN: Mr. Hearing Examiner, with  
10 your permission, I'd like to do just a little bit of  
11 friendly cross-examination of Ms. Binion to be clear.

12 WPX is not opposing this application, and,  
13 in fact, the direct testimony that's been elicited thus  
14 far is entirely consistent with WPX's understanding of  
15 the agreement between the parties thus far.

16 I would just like to do a couple of things  
17 to clarify the situation for the Examiners and also  
18 present a couple of exhibits that might kind of flesh  
19 out the scenario here with respect to WPX's ownership  
20 and the overlapping acreage.

21 MS. KESSLER: No objection.

22 EXAMINER DAWSON: I think that would be  
23 fine.

24 MR. McMILLAN: Thanks.

25 In addition, I'd hate to have sat here all

1 morning and not get to do anything.

2 So if I may approach with the exhibits.

3 CROSS-EXAMINATION

4 BY MR. McMILLAN:

5 Q. Ms. Binion, I believe you've testified and  
6 certainly you've performed your due diligence as to the  
7 ownership of the acreage and expanded North Alamito  
8 Unit, correct?

9 A. Yes.

10 Q. And I believe you testified that WPX has lease  
11 acreage in what is currently configured as the West  
12 Alamito Unit; is that correct?

13 A. Yes.

14 Q. And you're aware that that acreage overlaps  
15 with acreage that Encana is requesting to be  
16 incorporated into the expanded North Alamito Unit?

17 A. Yes.

18 Q. Do you acknowledge that the West Alamito Unit  
19 has been fully approved by BLM and the Division, and  
20 it's currently in effect?

21 A. Yes.

22 Q. And if we can take a quick look at Exhibit 1,  
23 does this appear to be the order of the Division  
24 approving the West Alamito Unit?

25 A. Yes, it does.

1 Q. Has Encana applied to reopen the West Alamito  
2 Unit?

3 A. No.

4 Q. And have you researched whether WPX holds a  
5 lease on acreage within the West Alamito Unit?

6 A. Yes.

7 Q. And does Exhibit 2 look familiar? Is that the  
8 lease in question?

9 A. Yes.

10 Q. Great.

11 Have you consulted any records, including  
12 the lease in front of us, to ascertain whether WPX's  
13 lease would expire?

14 A. Yes.

15 Q. And in your opinion, when would that lease  
16 expire?

17 A. November 30th, 2016.

18 Q. Okay. Great.

19 And in the meantime, Encana and WPX are in  
20 the process of working out an acreage swap, correct?

21 A. Correct.

22 Q. That process has begun?

23 A. Yes.

24 Q. In your opinion, is it very far along, any  
25 closer --

1           A.    It has received approval of each of the two  
2   development teams of WPX and Encana.  And it's my  
3   understanding -- I mean, Encana is presenting to its  
4   management the swap plan for its final approval to  
5   proceed forward to sign the exchange agreement, and it's  
6   my understanding that WPX is in the process of doing the  
7   same thing.

8           Q.    Great.  Great.

9                         But with the November 30, 2016 expiration  
10   date, you understand there is a certain degree of  
11   urgency as it relates to WPX's --

12          A.    Absolutely.

13          Q.    -- perspective in getting this deal done?

14                         And Encana, of course, understands that  
15   while this acreage swap is being negotiated, WPX is  
16   reserving its right under the West Alamito Unit,  
17   correct?

18          A.    Correct.

19          Q.    Have you reviewed the West Alamito Unit  
20   Agreement?

21          A.    I don't have a copy of it, and I have not asked  
22   for a copy of it.

23          Q.    Let's take a quick look at Exhibit 3.  I know  
24   you haven't looked at it, but on the face of this, does  
25   this appear to be an unsigned copy of that agreement?

1           I will go ahead and just represent to you  
2 on the record that I pulled this off of the Division's  
3 Web site, the West Alamito Unit Agreement.

4           A.    Okay.

5           Q.    Would you expect that the unit agreement would  
6 require the drilling of an obligation well within that  
7 time period?

8           A.    Absolutely.  Yes.

9           Q.    And have you reviewed any BLM records regarding  
10 when this term might expire and whether it's been  
11 extended?

12          A.    I have been informed verbally by a staff member  
13 of BLM in the field office in Farmington that it has  
14 been extended through, I believe, July of this year.

15          Q.    Okay.  Just to clarify that point, let's just  
16 take a quick look at WPX's Exhibit 3, please -- or  
17 Exhibit 4.  I'm sorry.  And I will represent to you that  
18 these are letters between WPX and BLM.  They are in  
19 chronological order.  They are WPX requests for  
20 extension, followed by BLM's response.  If we could look  
21 together at the last page of Exhibit 4, and I'll give  
22 you time to review it.  Let me know when you've had a  
23 chance.

24          A.    Okay.

25          Q.    As of this May 24th letter, does it appear that

1 the extension is to June 29th, 2016 --

2 A. Yes.

3 Q. -- for WPX to drill their obligation well?

4 A. Yes.

5 Q. And does this letter appear to make any  
6 representations concerning whether additional  
7 extensions, if requested, would be granted?

8 A. It doesn't indicate that.

9 Q. In light of Exhibit 4, do you understand,  
10 again, that there is a certain urgency for WPX's needing  
11 to get this acreage swap closed?

12 A. Yes.

13 Q. And in that vein, is Encana aware that WPX is  
14 prepared to drill the previously approved West Alamito  
15 Unit 462H well as its obligation well?

16 A. Yes.

17 Q. Oh, great.

18 Let's take a look at Exhibit 5, an  
19 application for permit -- an APD on exactly that well,  
20 again the West Alamito Unit 462H well.

21 MR. McMILLAN: For the record, the API  
22 number is 3004535716.

23 Q. (BY MR. McMILLAN) Does this APD -- on the face  
24 of this APD, does it appear that the well has been  
25 approved for drilling?

1           A.    Yes.

2           Q.    Okay.  So Encana's been informed and  
3 understands that WPX is not opposing this application,  
4 correct?

5           A.    Yes.

6           Q.    And Encana understands that as a condition of  
7 this nonopposition, there is an agreement that a  
8 provision should be added to the Division's order that  
9 no final order would be entered until WPX has formally  
10 notified the Division in writing that the contemplated  
11 acreage swap transaction closed and that WPX, therefore,  
12 consents to the termination of contraction of its West  
13 Alamito Unit to accommodate the contraction of the North  
14 Alamito Unit as discussed today?

15          A.    Yes.  We have no opposition to that statement  
16 being included if the order is issued prior to WPX  
17 contracting their West Alamito Unit.  Yes.

18          Q.    Great.  Thank you.

19                   And Encana understands that WPX won't be in  
20 any position to submit to the Division any such formal  
21 notification unless and until the swap has closed,  
22 correct?

23          A.    Understood.

24          Q.    Finally, Exhibit 6, if you can just take a look  
25 at this.  Let me know when you've done so.  The email in

1 the bottom half of Exhibit 6 reflects, to your mind, the  
2 current understanding between the parties?

3 A. Yes.

4 Q. Fantastic. That's all I have.

5 EXAMINER DAWSON: Thank you.

6 CROSS-EXAMINATION

7 BY EXAMINER DAWSON:

8 Q. Ms. Binion, in your communication with WPX on  
9 the overlapping of the units, are you getting close to  
10 making an agreement on that?

11 A. We've reached an agreement between the teams.  
12 And we have done acreage swaps with WPX in the past and  
13 have been working on this one for a considerable amount  
14 of time. We have no reason -- neither party has any  
15 reason to believe management won't approve it. We also  
16 have an exchange agreement format that we've used in the  
17 past that should facilitate a quicker process of getting  
18 a draft agreement prepared and finalized.

19 We've also both reviewed some of the title  
20 on a lot of the acreage being swapped, so we have a good  
21 reason to believe we can move quite expeditiously to  
22 complete the transaction.

23 Q. When SLO told you that they were concerned on  
24 the unleased mineral acreage, did they elaborate on  
25 that?

1           A.    I asked the reason, and I was told from the  
2 staff member that I spoke to, who was not in the  
3 Commissioner's office but worked for the State Land  
4 Office staff on the administrative side -- she said it  
5 was her understanding it was the unleased tract that was  
6 the issue within the expansion lands. But I haven't  
7 gotten that final word yet. I'm going to meet with  
8 Patrick Padilla from the Commissioner's office this  
9 afternoon to try to understand better so that I can  
10 relate back to the BLM their opposition to this.

11           Q.    All right. And you also believe there is a  
12 certain urgency getting this acreage swapped or acreage  
13 situation with WPX -- I'm supposing that Encana and WPX  
14 are really working hard to try to get this approved and  
15 taken care of --

16           A.    Exactly.

17           Q.    -- before any lease expirations come about?

18           A.    Exactly.

19                    The expression of WPX under their testimony  
20 indicates their urgency.

21                    But Encana's urgency is the fact that if  
22 the trade is consummated, we are acquiring ownership of  
23 that interest. We're giving up producing acreage in  
24 order to acquire the ownership, and then we're now faced  
25 with the obligation of extending the term of that lease

1 by including it in the North Alamito Unit. Hence, our  
2 request for the Division to hear this today to expedite  
3 some of that process, because it's a long, drawn-out  
4 process to get the final unit approval, and that has to  
5 occur prior to November 30th. So not only do they have  
6 the urgency, but so do we.

7 Q. I understand. And we'll do our best to help  
8 you with the urgency of the issuance of the order, but  
9 we need you guys to complete your work first.

10 A. Absolutely.

11 Q. So we have to wait on you before we can get the  
12 order issued.

13 A. Yes, sir. We do understand that.

14 MS. KESSLER: Those are all my questions.

15 CROSS-EXAMINATION

16 BY EXAMINER McMILLAN:

17 Q. My question deals with WPX. You create a pool  
18 out of that, right? Is there a -- is there a -- is  
19 there a contraction clause in the pool to fit the new  
20 boundaries? Is there a contraction clause in the pool  
21 to fit the boundaries of the unit?

22 MS. KESSLER: The discussion I have had  
23 with Mr. McMillan --

24 MR. McMILLAN: No relation as far as we  
25 know.

1 MS. KESSLER: -- and with WPX is that  
2 everybody understands that there is a regulatory process  
3 that WPX will need to go through in order to contract  
4 the acreage. That will not happen automatically. WPX  
5 will need to submit to the Division and likely go to  
6 hearing over the contraction of the West Alamito Unit.

7 EXAMINER McMILLAN: Okay.

8 MS. KESSLER: So all of this will need to  
9 happen quickly, as you can understand.

10 MR. McMILLAN: Orders after this will allow  
11 the contraction and expansion of the pools to fit the  
12 unit boundaries?

13 MS. KESSLER: Yes. And my understanding of  
14 this particular order, and I believe it dovetails with  
15 everybody's understanding, is that WPX will actually  
16 need to apply for a hearing to contract the pool  
17 boundaries given its pool.

18 MR. McMILLAN: That is our understanding,  
19 Mr. Hearing Examiner.

20 EXAMINER DAWSON: Could you call a hearing  
21 to contract the pool -- the pool -- the pool and the  
22 unitized area, correct?

23 MR. McMILLAN: I'd like to think so.

24 EXAMINER DAWSON: Okay. I just want to  
25 clarify that.

1 Do you have any questions?

2 EXAMINER BROOKS: No.

3 EXAMINER DAWSON: No questions?

4 EXAMINER McMILLAN: No.

5 MR. McMILLAN: It occurs to me, before you  
6 excuse the witness, that I've been negligent to move the  
7 admission of my exhibits. I'd like to do that at this  
8 time.

9 EXAMINER DAWSON: Okay. Any objection?

10 MS. KESSLER: No objection.

11 EXAMINER DAWSON: Okay. So WPX's Exhibits  
12 1 through 6 will be admitted to the record.

13 (WPX Exhibit Numbers 1 through 6 are  
14 offered and admitted into evidence.)

15 MR. McMILLAN: Thank you.

16 EXAMINER DAWSON: And that concludes the  
17 questions of Ms. Binion.

18 You may call your next witness, please.

19 (Examiner Brooks exits the hearing room.)

20 ERIK GRAVEN,

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

23 DIRECT EXAMINATION

24 BY MS. KESSLER:

25 Q. Mr. Graven, please state your name for the

1 record and tell the Examiners by whom you are employed  
2 and in what capacity?

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

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

8 A. Yes.

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

11 A. Yes.

12 Q. Are you familiar with the geologic study of the  
13 lands within the North Alamito Unit and the expansion  
14 area?

15 A. Yes, I have [sic].

16 MS. KESSLER: Mr. Examiner, I'd tender  
17 Mr. Graven as an expert in petroleum geology.

18 EXAMINER DAWSON: Mr. Graven is qualified  
19 as an expert petroleum geologist.

20 No objection?

21 MR. McMILLAN: No objection.

22 EXAMINER DAWSON: Sorry.

23 Q. (BY MS. KESSLER) Mr. Graven, please turn to  
24 Exhibit 9 and identify the unitized interval for the  
25 proposed unit -- or for the unit?

1           A.    Yes.  Exhibit 9 is a type log from the Lybrook  
2   H36-2307 01H well.  It shows the proposed unitized  
3   interval along the left-hand edge of this well, and that  
4   unitized interval extends 100 feet below the top of the  
5   Mancos Shale down to the base of the Greenhorn -- or the  
6   top of the Graneros Shale.

7           Q.    And is this the same unitized interval that was  
8   identified in Order R-14087?

9           A.    Yes, it was.

10          Q.    Was that proposed unitized interval extended  
11   past the expanded acreage?

12          A.    Yes, it does.

13          Q.    Please turn to Exhibit 10 and identify this  
14   exhibit for the Examiners and walk us through it.

15          A.    Yes.  Exhibit 10 is a structure contour map on  
16   top of the Mancos Shale that has contour intervals of 20  
17   feet, and it shows beds dipping gently down to the  
18   northeast with dips of two to three degrees.

19                    It shows the type log shown in the previous  
20   exhibit with highlighting of a green hexagon that is  
21   over on the eastern -- just outside the eastern edge of  
22   the unit.  It also shows two cross sections, A, A prime  
23   from northwest-southeast, and B, B prime from northeast  
24   to south -- or from southwest to northeast.

25          Q.    The wells on these two cross-section lines will

1 be used for your following exhibits, correct?

2 A. Yes, they will.

3 Q. Turn to Exhibit 11 and identify this exhibit  
4 and walk us through it.

5 A. Yes. Exhibit 11 is cross section A, A prime,  
6 shown on the previous map. It shows six wells. Each  
7 well has a gamma-ray log shown in the left-hand track, a  
8 resistivity log in the track immediately to the depth  
9 track, and a porosity log in the far right-hand track,  
10 with increasing porosities highlighted by red.

11 It shows good correlation of the unitized  
12 interval across the cross section and good continuity of  
13 that unitized interval across the unit along this cross  
14 section.

15 Q. Is there anything else you'd like to point out  
16 with this exhibit?

17 A. No.

18 Q. Turn to Exhibit 12 and walk us through this  
19 exhibit.

20 A. Exhibit 12 is cross section B, B prime. This  
21 was also shown on the previous Mancos Shale map. Again,  
22 it shows the same logs that were shown in the previous  
23 exhibit. And although a number of these wells have  
24 limited coverage of the log data, they do all have a  
25 full resistivity track, and the resistivities are very

1 correlative across the cross section and show good  
2 continuity of the unitized interval.

3 Q. Have you identified any geologic impediments in  
4 the expanded acreage that would prevent the additional  
5 acreage from being efficiently developed during the unit  
6 plan for horizontal wells?

7 A. No, I have not.

8 Q. And in your opinion, will the granting of the  
9 application be in the best interest of conservation, for  
10 the prevention of waste and the protection of  
11 correlative rights?

12 A. Yes, it will.

13 Q. Is Exhibit 13 the current development plan?

14 A. Yes, it is.

15 Again, Exhibit 13 shows the proposed  
16 expanded unit outlined in red. It shows a number of  
17 horizontal well sticks. The brown horizontal well  
18 sticks are proposed development wells within the upper  
19 part of the Gallup or the El Vado section of the Gallup.  
20 The blue sticks are wells that would target the lower  
21 portion of the Gallup or Tocito interval.

22 This map also shows the nit obligation well  
23 highlighted in green. That's the H26-2307 01H. And  
24 there are some additional wells, six additional  
25 horizontal wells, that have already been drilled within

1 the unit, and they are shown with a thinner green line  
2 on this map.

3 Q. And with respect to the thicker green line, has  
4 the BLM agreed to delete that as the initial well?

5 A. Yes, they have.

6 Q. Were Exhibits 9 through 13 prepared by you --  
7 or 9 through 12 prepared by you or compiled under your  
8 direction and supervision?

9 A. Yes, they were.

10 MS. KESSLER: Mr. Examiner, I'd move -- I'm  
11 sorry -- Exhibits 9 through 13 into the record.

12 EXAMINER DAWSON: Any objection?

13 MR. McMILLAN: No objection.

14 EXAMINER DAWSON: Exhibits 9 through 13  
15 will be admitted to the record.

16 (Encana Oil & Gas Exhibit Numbers 9 through  
17 13 are offered and admitted into evidence.)

18 MS. KESSLER: And that concludes my direct  
19 examination.

20 MR. McMILLAN: No questions of this  
21 witness. Thanks.

22 EXAMINER DAWSON: Okay.

23 CROSS-EXAMINATION

24 BY EXAMINER DAWSON:

25 Q. Mr. Graven, I was noticing on the map on

1 Exhibit 13 that you have a preliminary development plan.

2 A. Uh-huh.

3 Q. I noticed on the expected Upper Gallup  
4 development wells, they're -- I guess they're spaced  
5 consistently with the Lower Gallup development wells,  
6 correct?

7 A. Correct.

8 Q. And those wells that have been drilled within  
9 the unit, how are they performing?

10 A. They vary somewhat. The initial well that was  
11 drilled in the unit, our unit obligation well, that was  
12 a very strong well. The initial 30-day average  
13 production on that was approximately 380 barrels of oil  
14 per day.

15 The second well that was drilled is  
16 immediately north of that well. That well targeted an  
17 interval within the Mancos Shale overlying the Gallup.  
18 That was not a good well. It produced roughly ten  
19 barrels of oil per day, and we have since abandoned that  
20 well. We sidetracked it, and that sidetracked well is  
21 the well immediately to the north. That sidetracked  
22 well targeted the Upper Gallup. That was also a very  
23 good well, initial 30-day production of 280 barrels per  
24 day.

25 The four subsequent wells were drilled in

1 Section 32, and the initial production on those wells --  
2 30-day initial production was roughly 250 to 300 barrels  
3 of oil per day, I believe. And they're all currently  
4 making approximately 50 barrels of oil per day. All  
5 four of those wells target the Lower Gallup.

6 Q. Did you provide any paying-well determinations  
7 to the BLM or the Land Office?

8 A. I do not believe we're required to provide  
9 those until after the unit is formed. So --

10 Q. Okay. Those are all the questions I have.  
11 Thank you.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. My question goes back to 13. So in the  
15 southwest portion of the unit, you don't expect any  
16 Upper Gallup to be nonprospective?

17 A. Very currently we do not view that to be  
18 prospective. That's not to say we couldn't change our  
19 opinion of that interval in the future. As we drill  
20 these wells in that interval and move to the southwest,  
21 if those wells are successful, then we would continue  
22 developing that Upper Gallup further to the southwest.  
23 That is portrayed on this map:

24 Q. So you're saying basically the geologic  
25 evidence is that you don't think -- these may not be

1 prospective, as a safe statement?

2 A. Yes. That's a safe statement. The sands in  
3 that area are thinner.

4 Q. I don't have any further questions.

5 RE CROSS EXAMINATION

6 BY EXAMINER DAWSON:

7 Q. Actually, when I was looking at the map, I did  
8 have a few other questions to ask you.

9 A. Uh-huh.

10 Q. In looking at your map on Exhibit 13, again  
11 your preliminary development plan map, on the -- in  
12 Section 23 North -- I'm sorry -- Township 23 North,  
13 Range 7 West, kind of in the southeast corner down  
14 there, it looks like it's Section -- I don't know --  
15 35 -- the northeast quarter of Section 35 of 23 North, 7  
16 West, it looks like there is an open area in there.

17 A. Yes.

18 Q. Do you anticipate that some of those wells may  
19 be up -- to the northwest of that will extend down into  
20 that northeast corner of Section 35 of 23 North and 7  
21 West to recoup the reserves in that open-ended box  
22 there --

23 A. Yes.

24 Q. -- northeast quarter?

25 A. Right. Currently that is the unleased federal

1 acreage --

2 Q. Oh, okay.

3 A. -- and we could not drill into that acreage  
4 until it is leased and assigned to the unit.

5 Q. And I also noticed on some of your well paths,  
6 looks like on here, the expected well -- plan wells, it  
7 looks like a lot of those are a mile-and-a-half  
8 horizontal wells; is that correct?

9 A. Yes. There are varying lengths. We've already  
10 done quite a bit of work on identifying pad locations  
11 out here, and we have shifted those pads northwest or  
12 southeast to allow the most optimum location  
13 environmentally, topography-wise or archeological issues  
14 that may drive where those pad locations go. And that  
15 in turn drives how long we need to drill the laterals to  
16 develop the entire area. So some of them do approach  
17 9,000 feet.

18 Q. You've been drilling 9,000-foot wells out  
19 there?

20 A. We have not drilled that long yet. WPX has.  
21 And we feel confident that we could as well.

22 Q. So they're having really encouraging results  
23 from those mile-and-a half horizontals?

24 A. Yes. Actually one of those wells is showing  
25 just off the northeast edge of the unit.

1 Q. Oh, okay.

2 A. I don't have a label on that bottom hole, but  
3 you can see along -- along the lateral wellbore there.

4 Q. Is that over in Section 24 of, looks like,  
5 Lybrook South 5? Is that the name of that well?

6 A. That's actually the name of a vertical well  
7 just north of there, but yes. It's in Section 24 of 23  
8 North, 7 West, and also it would be adjacent --

9 Q. In Section 18 of 23 North, probably 6 West, I  
10 suppose?

11 A. Right. Yeah. Section 19, I believe.

12 Q. Do you know how that well is performing?

13 A. From press releases that WPX has put out, if  
14 I'm thinking of the correct one, I believe that it's an  
15 excellent well.

16 Q. And that's an Upper Gallup well?

17 A. Yes.

18 Q. Or El Vado, I should say?

19 A. Right.

20 Q. El Vado.

21 All right. That's all the questions I  
22 have?

23 EXAMINER DAWSON: Michael, did you come up  
24 with any more?

25 EXAMINER McMILLAN: No. So the question is

1 when are we going to continue?

2 MS. KESSLER: At this point we would be  
3 requesting a one-month continuance to allow WPX and  
4 Encana to finalize negotiations and to finalize  
5 negotiations with the State Land Office and the BLM.

6 EXAMINER McMILLAN: So it would be July  
7 7th?

8 MS. KESSLER: That's right.

9 EXAMINER DAWSON: Okay. Those are the only  
10 two issues you're working on, the WPX swap or trade on  
11 the land, and then also working with the Land Office?

12 MS. KESSLER: That's correct.

13 And at that point, the third issue will go  
14 away, and that is the publication in the Sandoval County  
15 Newspaper.

16 EXAMINER DAWSON: That's the notice. Yeah.  
17 That's correct, because ten days is required in our  
18 rules. So yeah, that'll take care of itself. So the  
19 other two issues we elaborated on will be taken care of  
20 hopefully by July 7th -- or July 9th. I'm sorry.

21 MS. KESSLER: We intend to bring a land  
22 witness, Mona Binion, to update the status -- the  
23 Division on the status.

24 EXAMINER DAWSON: On the 7th, correct?

25 MS. KESSLER: On July 7th.

1 EXAMINER DAWSON: That's all the questions  
2 we have.

3 Do you have any more questions?

4 MR. McMILLAN: I'm satisfied. Thank you.

5 EXAMINER DAWSON: Very good.

6 So Case Number 15367 will be continued  
7 until July 7th.

8 And that concludes today's hearing. Thank  
9 you.

10 (Case Number 15367 concludes, 11:58 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 \_\_\_\_\_

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\_\_\_\_\_  
Oil Conservation Division

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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  
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14 Record of the proceedings truly and accurately reflects  
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21 *Mary C. Hankins*

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