

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:

CASE 15337

APPLICATION OF ENCANA OIL & GAS (USA) INC.
FOR APPROVAL OF THE VENADO CANYON UNIT, SANDOVAL
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

JUNE 25, 2015

Santa Fe, New Mexico

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

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OIL CONSERVATION DIVISION

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMILLAN,
Chief Examiner, Scott Dawson, Examiner, and Gabriel
Wade, Legal Examiner, on June 25, 2015, 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
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
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1 A P P E A R A N C E S

2 For the Applicant

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8 I N D E X

9 CASE NUMBER 15337 CALLED
10 ENCANA OIL & GAS (USA) INC. CASE-IN-CHIEF:
11 WITNESS MONA L. BINION

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13 By Mr. Feldewert 4

14 Examiner McMillan EXAMINATION
15 10

16 WITNESS ERIK GRAVEN

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19 Examiner Dawson EXAMINATION
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1 (Time noted 4:16 p.m.)

2 EXAMINER McMILLAN: I call the hearing back
3 to order. I would like to call case 15337, Application
4 of Encana Oil & Gas (USA) Inc. For Approval of the
5 Venado Canyon Unit, Sandoval County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 I'm Michael Feldewert with the Santa Fe Office of
9 Holland and Hart appearing on behalf of the applicant.
10 I have two witnesses here today.

11 EXAMINER McMILLAN: Any other appearances?

12 (No response.)

13 MR. FELDEWERT: The witnesses have already
14 been sworn. And I call our first witness.

15 MONA BINION

16 having been first duly sworn, was examined and testified
17 as follows:

18 DIRECT EXAMINATION

19 BY MR. FELDEWERT:

20 Q. Please state your name, by whom you are employed
21 and in what capacity?

22 A. My name is Mona Binion. I'm employed by Encana
23 Oil and Gas, Inc. -- U.S.A., Inc. I am a land
24 negotiator for the San Juan Basin.

25 Q. Ms. Binion, you have previously testified before

1 the Division as an expert in petroleum land matters,
2 correct?

3 A. Yes, I have.

4 Q. Are you familiar with this particular
5 application?

6 A. Yes, I am.

7 Q. Are you familiar with the status of the lands in
8 this case?

9 A. Yes, I am.

10 MR. FELDEWERT: I once again tender
11 Ms. Binion as an expert witness in petroleum land
12 matters.

13 EXAMINER McMILLAN: So accepted.

14 Q. Could you please turn to what's been marked as
15 Encana Exhibit Number 1 and identify it and explain what
16 the company seeks under this application?

17 A. Exhibit No. 1 is a map of the area known as the
18 Venado Canyon, proposed Venado Canyon unit. It also
19 depicts the area surrounding the Venado Canyon, which is
20 the closest oil pools that have been established, which
21 is the Counselor's Gallup Dakota Pool and the Lybrook
22 Gallup Pool. And the area is 22 North, 6 West, which is
23 where the Venado Canyon Unit is located in Sandoval
24 County.

25 Q. Approximately how many acres will comprise this

1 proposed unit?

2 A. 4,320 acres of federal and fee lands.

3 Q. And does Encana's application provide a correct
4 legal description of the proposed unitized area?

5 A. It does.

6 Q. Do you expect this unit to produce oil?

7 A. Yes, we do.

8 Q. And looking at Exhibit No. 2, do we know what
9 pool is in this particular area?

10 A. It should fall into the pool rules for the
11 Lybrook Gallup Pool, according to the instructions from
12 the district office.

13 Q. I turn to what has been marked as Encana
14 Exhibit 2. Is this a C-102 for the Lybrook P-032206
15 well?

16 A. Yes, it is.

17 Q. Is that a well inside the proposed unit area?

18 A. Yes, it is.

19 Q. And this was filed initially as a wildcat well,
20 correct?

21 A. Correct.

22 Q. And whose handwriting is it that put in Lybrook
23 Gallup?

24 A. I believe that's from the Aztec Office.

25 Q. And does it also then provide a pool code?

1 A. Yes. It's the Lybrook Gallup pool code and pool
2 name.

3 Q. Are you familiar with those rules?

4 A. Yes.

5 Q. Are they subject to the general statewide rules?

6 A. That is correct.

7 Q. Providing for a 330 foot setback?

8 A. Yes.

9 Q. So there is no need or no request here to create
10 a special pool for this particular area?

11 A. No.

12 Q. If I turn to what's been marked as Encana Exhibit
13 Number 3, is this the copy of the unit agreement that
14 will govern this particular Venado Canyon unit area?

15 A. Yes, it is.

16 Q. And does this conform with the federal
17 requirements where federal and fee acreage is involved?

18 A. Yes.

19 Q. But there are some modifications here, correct?

20 A. Correct.

21 Q. Does this only apply to horizontal wells?

22 A. Yes, it does.

23 Q. And will the entire unit area be treated as a
24 single participating area?

25 A. It will.

1 Q. This contains an Exhibit A, the unit boundary
2 outline tract, and then an Exhibit B, identifying the
3 breakdown of the interest, correct?

4 A. Yes.

5 Q. And I believe that unit A shows -- or Exhibit A
6 shows that this is going to be 96 percent federal
7 acreage?

8 A. Correct. And it will be effective November 1,
9 2014.

10 Q. Okay. If I look a little further then into this
11 unit agreement, does paragraph three on the second page
12 identify -- correctly identify the horizon that is going
13 to be unitized?

14 A. Yes.

15 Q. And it refers there to the Double Ought Well, do
16 you see that?

17 A. Yes.

18 Q. If I turn to what's been marked as Encana
19 Exhibit Number 4, is that the type log for the well that
20 is referenced in unit agreement?

21 A. Yes. Which is Exhibit C, which will be attached
22 to the unit agreement.

23 Q. Has the BLM provided preliminary approval for the
24 proposed unit?

25 A. Yes.

1 Q. I turn to what has been marked as Encana
2 Exhibit 5. Is that BLM's preliminary approval letter?

3 A. Yes, dated June 23, 2015, BLM letter providing
4 preliminary approval for Venado Canyon Unit.

5 Q. And, again, this is just 96 percent federal and 4
6 percent fee acreage?

7 A. Correct.

8 Q. Are there -- have all of the working interest
9 owners signed the joint operating agreement for this
10 acreage?

11 A. They haven't signed the joint operating
12 agreement, but they are in agreement with the terms.

13 Q. So they have been provided preliminary approval?

14 A. Yes.

15 Q. Was notice of this application provided to the
16 working interest owners within the proposed unitized
17 area?

18 A. Yes, it was.

19 Q. Turn to what has been marked as Encana Exhibit
20 Number 6. Is this my affidavit with an attached letter
21 providing notice of this application and hearing to the
22 two additional working interest owners in this area?

23 A. Yes.

24 Q. Ms. Binion, were Encana Exhibits 1 through 5
25 prepared by you or compiled under your direction and

1 supervision?

2 A. Yes.

3 MR. FELDEWERT: Mr. Examiner, I move the
4 admission into evidence of Encana Exhibits 1 through 6,
5 which includes my notice affidavit.

6 EXAMINER McMILLAN: Exhibit 1, Exhibit 2,
7 Exhibit 3, Exhibit 4, Exhibit 5 and Exhibit 6 now may be
8 accepted as part of the record.

9 (WHEREUPON, ENCANA OIL & GAS (USA) INC.
10 EXHIBITS 1 through 6 WERE OFFERED AND ADMITTED.)

11 MR. FELDEWERT: And that concludes my
12 examination of this witness.

13 EXAMINER DAWSON: This one seems a little
14 easier.

15 THE WITNESS: That is why we saved it for
16 last. We thought you guys would appreciate that.

17 EXAMINER DAWSON: I don't really have any
18 questions, Ms. Binion. I will ask the questions I have
19 of Mr. Graven. So I don't have any questions. Thank
20 you very much.

21 EXAMINATION BY EXAMINER McMILLAN

22 EXAMINER McMILLAN: How many leases total
23 are there?

24 THE WITNESS: I think there are four. I
25 need to go back and see.

1 MR. FELDEWERT: It is Exhibit 2.

2 THE WITNESS: Actually, there are three fee
3 leases under one fee tract. So if you count those,
4 there are six total. But there is one fee tract with
5 three independent leases; and then three federal leases.

6 EXAMINER DAWSON: It is on the recap under
7 Exhibit Number 3?

8 THE WITNESS: Right.

9 EXAMINER McMILLAN: And when will the
10 effective date of the unit be?

11 THE WITNESS: November 1st, 2014.

12 EXAMINER McMILLAN: And how many wells are
13 in there?

14 THE WITNESS: Two.

15 EXAMINER McMILLAN: Horizontal wells?

16 THE WITNESS: Correct, two producing
17 horizontal wells.

18 EXAMINER McMILLAN: I have no further
19 questions. And thank you very much.

20 MR. FELDEWERT: Call our next witness.

21 ERIK GRAVEN

22 having been first duly sworn, was examined and testified
23 as follows:

24 DIRECT EXAMINATION

25 BY MR. FELDEWERT:

1 Q. For the record, would you once again state your
2 name, by whom you are employed and in what capacity.

3 A. My name is Erik Graven and I'm employed by Encana
4 Oil and Gas as a senior geologist.

5 Q. Mr. Graven, you have previously testified before
6 the Division as an expert in petroleum geology; is that
7 correct?

8 A. Correct.

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

11 A. Yes, I am.

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

14 A. Yes, I have.

15 MR. FELDEWERT: I would once again tender
16 Mr. Graven as an expert witness in petroleum geology.

17 EXAMINER McMILLAN: So accepted.

18 Q. Mr. Graven, are you familiar with the horizon
19 that is being unitized in this particular case?

20 A. Yes, I am.

21 Q. And does this proposed unitized interval extend
22 across the acreage Encana seeks to improve within the
23 unit?

24 A. It does.

25 Q. If I turn to what has been marked as Encana

1 Exhibit 7, would you please identify it and explain how
2 it supports your conclusion.

3 A. Yes. This again is a structure contact map on
4 top of the Mancos Shale. It shows the proposed unit
5 outline in red. It shows structure contours again on a
6 structure contour interval of 20 feet. These contours
7 depict a very gentle dip of less than two degrees to the
8 northeast.

9 And I'm also showing two cross sections on this
10 map, cross section A, A Prime from north to south and B,
11 B Prime from the southwest to the northeast. Also the
12 type log from the Double Ought, that well is utilized in
13 both cross sections A, A Prime and B, B Prime. And it
14 is outlined with a red text again.

15 Q. And for the record, that's the well that is
16 referenced in the unit agreement for identifying the
17 unitized interval.

18 A. Yes, it is.

19 Q. Let's turn then to your first cross section,
20 which is A to A Prime. Would you please explain to us
21 what this shows.

22 A. Yes. This is a cross section again from north to
23 south. It shows the Venado Canyon unitized depths on
24 the far left edge of the cross section. It also shows
25 the continuity of the unitized intervals across the

1 unitized area. The logs are fairly consistent across
2 this area and they demonstrate good continuity across
3 the area.

4 Q. Is the Double Ought Well that we just spoke
5 about, is that the middle well in this particular
6 exhibit?

7 A. Yes, it is.

8 Q. If I then turn to the next cross section, which
9 has been marked as Encana Exhibit Number 9, what
10 conclusions do you draw from this -- first off, this
11 cross section goes -- is this the east to west cross
12 section?

13 A. Yes, from the southwest to the northeast.

14 Q. And what conclusions do you draw from this --

15 A. Again, this cross section shows very good
16 continuity of all the unitized intervals across the
17 proposed unitized area.

18 Q. Based on your study, do you observe any faults,
19 pinch-outs or other geologic impediments that will
20 prevent this acreage from being efficiently developed
21 under a unit plan using horizontal wells?

22 A. No, I do not.

23 Q. And in your opinion, will approval of this
24 application be in the best interests of conservation,
25 prevention of waste, and the protection of correlative

1 rights?

2 A. Yes, it would.

3 Q. Were Encana Exhibits 7 through 9 prepared by you
4 or compiled under direction and supervision?

5 A. Yes, they were.

6 MR. FELDEWERT: Mr. Examiner, I would move
7 the admission into evidence of Encana Exhibits 7
8 through 9.

9 EXAMINER McMILLAN: Exhibit 7, Exhibit 8,
10 and Exhibit 9 now may be accepted as part of the record.

11 (WHEREUPON, ENCANA OIL & GAS (USA) INC.

12 EXHIBITS 7 through 9 WERE OFFERED AND
13 ADMITTED.)

14 MR. FELDEWERT: And that concludes my
15 examination of this witness.

16 EXAMINATION BY EXAMINER DAWSON

17 EXAMINER DAWSON: Mr. Graven, the two wells
18 that you drilled within the unit --

19 THE WITNESS: Yes.

20 EXAMINER DAWSON: -- did they commence
21 production after the effective date that will be written
22 into the agreement?

23 THE WITNESS: Yes, they did.

24 EXAMINER DAWSON: And the effective date
25 written into the agreement, was that effective date

1 proposed by the BLM that you are using, the 11/1/2014?

2 THE WITNESS: I am not sure if that was
3 proposed by the BLM or Encana.

4 MS. BINION: It was proposed by us.

5 EXAMINER DAWSON: They had given you
6 preliminary approval of the unit and have they -- and
7 why is the unit agreement not signed yet?

8 MS. BINION: Because we haven't presented it
9 to them for signatures. We still have to get the
10 jointers from everyone with all the -- they won't
11 approve it until your order is issued.

12 EXAMINER DAWSON: Okay.

13 MS. BINION: It is all very regimented in
14 the timing of what has to be done when.

15 MR. FELDEWERT: That's the way it's always
16 been --

17 MS. BINION: There's a very long process to
18 getting it all done.

19 MR. FELDEWERT: That's why I've always had
20 to come here with preliminary procedures.

21 EXAMINER DAWSON: Okay. Those two wells
22 that you drilled within the unit --

23 THE WITNESS: Yes.

24 EXAMINER DAWSON: -- are those pretty good
25 wells?

1 THE WITNESS: Yes, they are. They are very
2 good wells.

3 EXAMINER DAWSON: So you believe that they
4 will be deemed commercial?

5 THE WITNESS: Yes.

6 EXAMINER DAWSON: Produce pay 1's?

7 THE WITNESS: Yes.

8 EXAMINER DAWSON: Those are all the
9 questions I have.

10 EXAMINER McMILLAN: I'm just curious, are
11 you going to drill the wells diagonal or north, south?

12 THE WITNESS: Largely diagonal. We will
13 drill some north, south to develop what I call fingers
14 extending to the south, on the south edge of the unit.
15 But most of the unit will be developed diagonally.

16 EXAMINER McMILLAN: Do you have any
17 questions?

18 EXAMINER WADE: I have no questions.

19 EXAMINER McMILLAN: I have no further
20 questions at this time. Therefore, case No. 15337 will
21 taken under advisement.

22 MR. FELDEWERT: Thank you, Mr. Examiner.

23 EXAMINER McMILLAN: Thank you. That
24 concludes the docket.

25 (Time noted 4:30 P.M.) I do hereby certify that the foregoing is
a true and correct record of the proceedings in
the Examiner hearing of Case No. _____

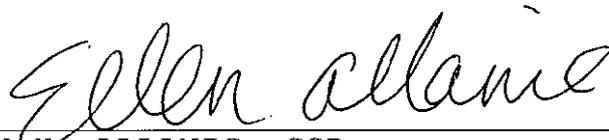
heard by me on _____

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

7 REPORTER'S CERTIFICATE

8
9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
10 No. 100, DO HEREBY CERTIFY that on Thursday, June 25,
11 2015, the proceedings in the above-captioned matter were
12 taken before me, that I did report in stenographic
13 shorthand the proceedings set forth herein, and the
14 foregoing pages are a true and correct transcription to
15 the best of my ability and control.

16
17 I FURTHER CERTIFY that I am neither employed by
18 nor related to nor contracted with (unless excepted by
19 the rules) any of the parties or attorneys in this case,
20 and that I have no interest whatsoever in the final
21 disposition of this case in any court.

22
23
24
25


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