

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:

COPY
CASE 15336

APPLICATION OF ENCANA OIL AND GAS (USA) TO
AMEND ORDER R-13856 TO EXPAND THE NAGEEZI
FEDERAL STATE ALLOTTED INDIAN/FEE EXPLORATORY
UNIT AND THE CORRESPONDING NAGEEZI UNIT Hz
OIL POOL, SAN JUAN 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

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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Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 For the Applicant

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10 I N D E X

11 CASE NUMBER 15336 CALLED
12 ENCANA OIL & GAS (USA) INC. CASE-IN-CHIEF:

13 WITNESS MONA BINION
14 DIRECT
15 By Mr. Feldewert 4
16 EXAMINATION
17 By Examiner Dawson 13

18 WITNESS ERIK GRAVEN
19 DIRECT
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I N D E X

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1 (Time noted 3:47 p.m.)

2 EXAMINER McMILLAN: I would like to call
3 case 15336, Application of Encana Oil and Gas (USA) to
4 amend order R-13856 to expand the Nageezi Federal State
5 Allotted Indian Fee exploratory unit and the
6 corresponding Nageezi Unit Hz oil pool, San Juan County,
7 New Mexico.

8 Call for appearances.

9 MR. FELDEWERT: May it please Examiner,
10 Michael Feldewert with the Santa Fe Office of Holland
11 and Hart, appearing on behalf of the applicant. And I
12 have two witnesses here today who have already been
13 sworn.

14 EXAMINER McMILLAN: Any other appearances?

15 (No response.)

16 MR. FELDEWERT: I would like to call the
17 first witness.

18 EXAMINER McMILLAN: Go ahead.

19 MONA BINION

20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

24 Q. Do you know what I am going to ask you?

25 A. Should I guess? My name is Mona Binion and I

1 work for Encana Oil and Gas, and my responsibility is
2 land negotiator for the San Juan Basin.

3 Q. You previously testified before this Division as
4 an expert in petroleum land matters, correct?

5 A. I have.

6 Q. Are you familiar with this particular
7 application?

8 A. I am.

9 Q. And are you familiar with the status of the lands
10 in the subject area?

11 A. I am.

12 MR. FELDEWERT: I will once again tender
13 Ms. Binion as an expert witness in petroleum land
14 matters.

15 EXAMINER McMILLAN: So accepted.

16 Q. Please turn to what has been marked as Encana
17 Exhibit 1. Is this the order that is the subject of the
18 hearing today?

19 A. It is, Order R-13856.

20 Q. And this order was actually entered on July 1,
21 2014?

22 A. Yes, it was.

23 Q. And did this order approve what is known as the
24 Nageezi Unit?

25 A. Yes, it did.

1 Q. What type of land is currently involved in the
2 Nageezi unit?

3 A. It is federal, fee, state, and Indian allottee.

4 Q. And the order also created a horizontal oil pool
5 for this particular unitized area?

6 A. Yes, it did.

7 Q. And did it provide for 330 foot setbacks?

8 A. Yes, it did.

9 Q. Was final approval received by the necessary
10 state and federal agencies after entry of this order?

11 A. Yes, it was.

12 Q. So this unit and the associated pool was actually
13 in effect?

14 A. Yes, it is.

15 Q. And what is the effective date of the unit?

16 A. The effective date of the unit was July 22, 2014.

17 Q. What does the company seek under this particular
18 application? What do you seek to amend under this
19 order?

20 A. We are requesting to expand the order to cover an
21 additional 1,280 acres, which is two legal sections, and
22 to expand the pool covered by this order by the same two
23 sections, 1,280 acres.

24 Q. Okay. Does the unit agreement remain the same?

25 A. The unit agreement remains the same; the unitized

1 interval remains the same.

2 Q. So the only thing that changes are Exhibits A and
3 B to the unit agreement?

4 A. Correct.

5 Q. Before we get to that, if I turn to what has been
6 marked as Encana Exhibit 2, does this show the type log
7 and identify the acreage that was unitized under this
8 particular order, the unitized interval?

9 A. Yes, it does.

10 Q. And if I go to -- back to Exhibit 1, and I go to
11 page five, and I look at paragraph seven, of Exhibit
12 No. 1 -- page five, paragraph seven -- does that
13 correctly identify the unitized interval?

14 A. Yes, it does.

15 Q. And you do not seek the change there?

16 A. No, we do not.

17 Q. And if I turn to the document that's been marked
18 as Encana Exhibit 3, is this a map that shows the
19 existing unitized area and the two additional sections
20 that you seek to add?

21 A. Yes, it does.

22 Q. How is it depicted on here?

23 A. If you look at the dark bold outline that
24 shows -- the black outline shows the total expanded
25 outline, which is the subject of this application. The

1 white area within that bold outline, sections 25 and 36,
2 are the two sections we are seeking to add to the
3 existing pool.

4 The area in that bold outline that is shaded
5 yellow is the existing order or the existing area
6 covered by order R-13956, which is the existing Nageezi
7 federal unit.

8 Q. Now, does the application filed by Encana include
9 the correct legal description for the expanded unitized
10 area?

11 A. Yes, it does.

12 Q. And if I turn to what's been marked as Encana
13 Exhibit 4, is this the amended Exhibit A that will be
14 attached to the existing unit agreement?

15 A. Yes, it does.

16 Q. And then is Encana -- does it also contain the
17 amended Exhibit B, which is a recompilation of the
18 interest that would be subject to that existing unit
19 agreement?

20 A. Yes, it does.

21 Q. Have all the working interest owners signed the
22 joint operating agreement that governed this expanded
23 unit operation?

24 A. No, they have not yet signed it. We are waiting
25 for the approval of all the agencies, but they have

1. reviewed it and approved it.

2 Q. Verbally?

3 A. Verbally, yes.

4 Q. Have you visited with the state land office, the
5 BLM, and the Federal Indian Minerals Office about adding
6 these two sections of land to the current unit?

7 A. Yes, we have.

8 Q. And have they provided approval?

9 A. Yes, they have.

10 Q. And now if you turn to what has been marked as
11 Encana Exhibit Number 5. Is this the approval letter
12 from the New Mexico State Land Office?

13 A. Yes, letter dated June 15th from the State Land
14 Office, it gives us preliminary approval to the
15 expansion of Nageezi unit.

16 Q. And, likewise, if I turn to what's been marked as
17 Encana Exhibit Number 6, is this the preliminary
18 approval to add those additional sections from the
19 Bureau of Land Management?

20 A. Yes, letter dated June 16th from the Bureau of
21 Land Management gives us preliminary approval to add two
22 sections to Nageezi unit; carbon copy was sent to
23 Federal Indian Minerals Office.

24 Q. And the acreage on it that's identified,
25 10,415.12, that includes the additional sections?

1 A. Yes, it does.

2 Q. If I then turn to what has been marked as --
3 before I get there, did -- has -- because this unit
4 was -- this order actually went into effect and the new
5 pool was approved in this order, has Encana already
6 drilled the initial development well?

7 A. Yes, we have.

8 Q. They've also drilled additional wells in there
9 since you actually had a pool that you could put on your
10 C-102?

11 A. Correct.

12 Q. How many wells have you drilled?

13 A. We've drilled a total of six wells in this unit
14 so far.

15 Q. And with respect to Encana Exhibit 3 that we just
16 examined, does it identify the pool that is involved
17 when we add sections 25 and 36 to the existing area?

18 A. Yes.

19 Q. And which pool is that?

20 A. The pool that is affected by the expansion lands
21 is the Basin Mancos Gas Pool.

22 Q. And did the company identify and provide notice
23 -- let me step back. And you seek to expand the Nageezi
24 horizontal oil pool into these two additional sections?

25 A. Yes, we do.

1 Q. And that pool provides for a 330 foot setback
2 requirement?

3 A. Yes, it does.

4 Q. As a result, did the company identify and provide
5 notice to the affected parties in the acreage offsetting
6 these two expanded sections?

7 A. Yes, we did.

8 Q. Did you also provide notice to the Indian
9 allottees and working interest owners within the
10 expanded unitized area?

11 A. Yes, we did.

12 Q. If I turn to what has been marked as Encana
13 Exhibit 7, is this the affidavit prepared by my office
14 with attached letters providing notice first to the
15 Indian allottee mineral owners within the unitized area?

16 A. Yes, it is.

17 Q. And secondly to the offsetting interest owners in
18 the acreage -- for the acreage that is being added?

19 A. Yes, it is.

20 Q. And, then, finally, the third letter was sent to
21 the working interest owners within the unit?

22 A. Yes, it is.

23 Q. And then finishing out that exhibit are the
24 multiple pages of the parties who were notified along
25 with the tracking number for the certified mails?

1 A. Yes.

2 Q. Did the company also publish notice of this
3 application and this hearing in a newspaper of general
4 circulation in San Juan County?

5 A. Yes, we did.

6 Q. I turn to what has been marked as Encana Exhibit
7 Number 8; is that an affidavit of publication in the
8 Farmington Daily Times --

9 A. Yes, it is.

10 Q. -- what is appearing in this application?

11 A. Yes, it is.

12 Q. Were Encana Exhibits 1 through 8 prepared by you
13 and filed under your direction and supervision?

14 A. Yes, they were.

15 MR. FELDEWERT: Mr. Examiner, I move the
16 admission into evidence of Encana Exhibits 1 through 8.

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

20 (WHEREUPON, ENCANA OIL AND GAS (USA) INC.

21 EXHIBITS 1 THROUGH 8 WERE OFFERED AND
22 ADMITTED.)

23 MR. FELDEWERT: That concludes my
24 examination of this witness.

25 EXAMINER DAWSON: I have no questions.

1 EXAMINATION BY EXAMINER McMILLAN

2 EXAMINER McMILLAN: So the effective date of
3 this will be July the 22nd, 2014?

4 THE WITNESS: That's what we are requesting,
5 the effective date of the expansion to be the effective
6 date of the unit, yes.

7 EXAMINER McMILLAN: And there are five
8 wells?

9 THE WITNESS: Six wells.

10 EXAMINATION BY EXAMINER DAWSON

11 EXAMINER DAWSON: I have a question,
12 Ms. Binion. Did production commence prior to July 22nd,
13 2014.

14 THE WITNESS: No.

15 EXAMINER DAWSON: It did not.

16 THE WITNESS: No. Commencement of
17 operations were like three days. After approval of the
18 unit, we were waiting with a rig, waiting for the unit
19 to be approved.

20 EXAMINER DAWSON: Okay. So there's no
21 rebooking of proceeds?

22 THE WITNESS: Well, there will be rebooking
23 because we will be bringing the two additional sections
24 in, and at the request of the new working interest owner
25 that will be coming into the unit that was not in there

1 before, we will be rebooking the production back to day
2 one. There is just a few months of production.

3 EXAMINER DAWSON: And that was agreed upon
4 by all three agencies, the SLO, the BLM, and the FIMO?

5 THE WITNESS: That's what we have in our
6 request. And, so, as far as I know, they are all okay
7 with that, yes. That's the way we've submitted it.

8 EXAMINER DAWSON: Thank you.

9 EXAMINER McMILLAN: I have no further
10 questions. You may be excused.

11 MR. WADE: Call our next witness.

12 ERIK GRAVEN

13 having been first duly sworn, was examined and testified
14 as follows:

15 DIRECT EXAMINATION

16 BY MR. FELDEWERT:

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

19 Q. And Mr. Graven, you previously testified before
20 this Division as an expert in petroleum geology?

21 A. Yes, I have.

22 Q. Did you actually testify as an expert in
23 petroleum geology in the case that resulted in the
24 Division order which has been marked as Encana Exhibit
25 Number 1?

1 A. Yes, I have.

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

4 A. Yes.

5 Q. Did you conduct a geologic study of the lands
6 that are the subject matter --

7 A. Yes.

8 MR. FELDEWERT: I once again tender
9 Mr. Graven as an expert witness in petroleum geology.

10 EXAMINER McMILLAN: So accepted.

11 Q. Mr. Graven, you're familiar with the horizon
12 that's being unitized here, correct?

13 A. Yes, I am.

14 Q. Does that particular horizon stand into the
15 addition of two sections that are soon to be added?

16 A. Yes, it does.

17 Q. And have you prepared some exhibits to
18 substantiate that opinion?

19 A. I have.

20 Q. I turn to what's been marked as Encana Exhibit 9.
21 Would you identify this.

22 A. Yes, this is a structure contour map on top of
23 the Mancos Shale. It shows the original Nageezi unit
24 outlined in red with the expanded unit area outlined in
25 blue.

1 It shows the structure contours at a contour
2 interval of 20 feet, with beds dipping gently to the
3 northeast with no faulting or other serious structural
4 complications across the unit or the expanded unitized
5 area.

6 Q. Now, the type log that's been admitted as an
7 exhibit in this area, did you utilize that for one of
8 your cross sections?

9 A. Yes. That's utilized in cross section B, B
10 Prime, which extends from the southwest to the
11 northeast.

12 Q. And then I look at your -- on this particular
13 exhibit, it also identifies the wells that you utilized
14 for A to A Prime?

15 A. Yes. A to A Prime extends generally from west to
16 east. I did include the Lee's Ferry Well just north of
17 the expanded unit area to give us better coverage across
18 that expanded area.

19 Q. In your opinion, are the wells that you have
20 utilized in your cross section representative of the
21 area?

22 A. Yes, they are.

23 Q. Why don't we turn to what has been marked as
24 Encana Exhibit 10. Does this correspond with the A to A
25 Prime shown on Exhibit 9?

1 A. Yes, it does.

2 Q. Can you explain to us what this shows,
3 Exhibit 10?

4 A. Yes. It shows the Nageezi Unit depths depicted
5 on the far left side of the cross section. Again, the
6 cross section extends from east to west, from A to A
7 Prime -- or from west to east -- sorry -- from A to A
8 Prime.

9 And it shows continuity of the unitized intervals
10 across that cross section area across the expanded
11 unitized area, both from east to west and from the Lee's
12 Ferry down to the English No. 1 Well. Those are the
13 primary wells that demonstrate the continuity of the
14 unitized intervals across the expanded area.

15 Q. And to the extent -- the type logs that you
16 readily utilized to that extent completely through the
17 unitized interval, would you expect there to be any
18 changes in terms of the continuity from what's requested
19 in the upper portion of the unitized interval?

20 A. No, I would not. The deeper portions of the
21 unitized interval are continuous across the region. I'd
22 expect them to be continuous across this area.

23 Q. And then if I turn to what's been marked as
24 Encana Exhibit 11, does this cross section correspond
25 with B to B Prime shown on Exhibit 19?

1 A. Yes, it does.

2 Q. And what conclusions do you draw having reviewed
3 this data?

4 A. This cross section also shows continuity of the
5 unitized intervals across the unit area.

6 Q. And is the well that you actually identified and
7 utilized to identify the unitized interval, is that --
8 where is that on this particular exhibit?

9 A. That is the second well from the right, the
10 Escrito P-16240901 well.

11 Q. In your opinion, are there any faults, pinch-outs
12 or other geologic impediments that will prevent these
13 additional two sections from being efficiently developed
14 under a unit plan using horizontal wells?

15 A. No, there are not.

16 Q. And will the approval of this application be in
17 the best interests of conservation and the prevention of
18 waste and the protection of correlative rights?

19 A. Yes, it will.

20 Q. Were Encana Exhibits 9 through 11 prepared by you
21 or compiled under your direction and supervision?

22 A. Yes, they were.

23 MR. FELDEWERT: I move the admission into
24 evidence of Encana Exhibits 9 through 11.

25 EXAMINER McMILLAN: Exhibit 9, Exhibit 10,

1 and Exhibit 11 may now be accepted as part of the
2 record.

3 MR. FELDEWERT: And that concludes my
4 examination of this witness.

5 (WHEREUPON, ENCANA OIL AND GAS (USA) INC.
6 EXHIBITS 9 THROUGH 11 WERE OFFERED AND
7 ADMITTED.)

8 EXAMINATION BY EXAMINER DAWSON

9 EXAMINER DAWSON: Mr. Graven, the six wells
10 within the unit, have you guys prepared a paying well
11 determination report to the AO, the land office, on any
12 of those wells?

13 THE WITNESS: I do not believe we prepared
14 that report yet.

15 EXAMINER DAWSON: Are you planning to?

16 THE WITNESS: Yes.

17 EXAMINER DAWSON: Do they require that of
18 you?

19 THE WITNESS: Yes. That is a requirement;
20 at least for the first well that would be required, and
21 we expect that to be obtained.

22 EXAMINER DAWSON: Isn't that required six
23 months after the completion of the well.

24 THE WITNESS: I am not sure.

25 EXAMINER DAWSON: Okay. The first well, you

1 said it was completed July 22nd -- Mona said it was
2 completed July 22nd, 2014 -- I'm sorry. That's the
3 effective date.

4 MS. BINION: I have a pretty long
5 determination ready to go. I just haven't filed it yet.
6 We just got six months of production, because I didn't
7 go on production until December. And, yes, if it does
8 make a paying well, we certainly will be filing it with
9 the BLM shortly.

10 EXAMINER DAWSON: Okay. The top well, the
11 Escrito well, that's not a productive well, is it?

12 THE WITNESS: The Escrito P-16?

13 EXAMINER DAWSON: Yes.

14 THE WITNESS: No, it is not.

15 EXAMINER DAWSON: And the other five wells,
16 do they look like they will be commercial or do you know
17 yet?

18 MS. BINION: The P-16 is the Blanco Wash.
19 That's in another unit. That is just a marker well for
20 depth. There are six wells in this unit, and we are
21 only filing paying well determination on one well. And
22 once we make that paying well determination, you don't
23 have to file on the other wells. They'll just all be --

24 EXAMINER DAWSON: Well, you will have
25 continuous drilling operations ongoing --

1 MS. BINION: Correct.

2 EXAMINER DAWSON: The unit, that's what's
3 going to hold it for you, correct?

4 MS. BINION: That's correct. And they'll
5 all be shared on a unit basis, correct.

6 EXAMINER DAWSON: That's is all the
7 questions I have. Thank you, Mr. Graven.

8 EXAMINER McMILLAN: I don't have any
9 questions.

10 Case number 15336 will be taken under
11 advisement with the contingency that the OCD receive a
12 copy of the economic determination.

13 EXAMINER DAWSON: The paying well
14 determination --

15 EXAMINER McMILLAN: Yes, the paying well --

16 EXAMINER DAWSON: -- that is required to be
17 submitted to the authorized office?

18 EXAMINER McMILLAN: Yes, will be submitted
19 as part of the record.

20 MR. FELDEWERT: Mr. Examiner, who should
21 they submit the paying well determination to?

22 EXAMINER McMILLAN: I guess it would be
23 submitted to me because I am the hearing examiner.

24 MR. FELDEWERT: One second.

25 MS. BINION: Do you want just my application

1 or do you want to wait for the response back from the
2 BLM?

3 EXAMINER McMILLAN: The response back from
4 the BLM.

5 MS. BINION: Okay.

6 MR. FELDEWERT: I hope we can get it
7 quickly. My only concern is we can submit it to the
8 BLM. I don't know how long it will take them to get it
9 back. And I would hate to see this order get delayed
10 while we sit and wait for the BLM.

11 EXAMINER DAWSON: How about the land office
12 for a commercial determination?

13 MS. BINION: Usually the land office defers
14 to the BLM for making that determination. They usually
15 don't -- we just copy them on it. They usually don't
16 make a statement on it.

17 MR. FELDEWERT: I guess my thought on it
18 is --

19 EXAMINER McMILLAN: Go ahead.

20 MR. FELDEWERT: Let's recognize a couple of
21 things. One, the unit is already in effect, so all we
22 are doing is adding the additional acreage. So I am not
23 sure that the paying well determination is really
24 important in my mind to add the additional acreage.

25 EXAMINER DAWSON: Well, I think that it may

1 not be required from us, but --

2 MR. FELDEWERT: I mean, we would be happy to
3 submit it --

4 EXAMINER McMILLAN: Just submit it.

5 EXAMINER DAWSON: You know, you guys even if
6 it is not a paying well, we do know that the BLM, land
7 office, and FIMO know that you are going to be
8 conducting continuous drilling operations in that area,
9 so that should suffice.

10 MR. FELDEWERT: That will be great. I'd
11 just hate to see the order held up. But we will submit
12 it to you in conjunction with the BLM.

13 EXAMINER McMILLAN: That would be great.
14 Thank you very much. Let's take a three-minute break so
15 we can at least stand up.

16

17

18 (Time noted 4:15 p.m.)

19

20

21

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

22

23

24

_____, Examiner
Oil Conservation Division

25

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


ELLEN H. ALLANIC, CSR

NM Certified Court Reporter No. 100

License Expires: 12/31/15