

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

CASE 15368

APPLICATION OF ENCANA OIL & GAS (USA) INC.  
FOR APPROVAL OF THE GOOD TIMES UNIT,  
CREATION OF A NEW POOL FOR HORIZONTAL  
DEVELOPMENT WITHIN THE UNIT AREA, and FOR  
ALLOWANCE OF 330 FOOT SETBACKS FROM THE  
EXTERIOR OF THE PROPOSED UNIT, SAN JUAN  
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

OCTOBER 1, 2015

Santa Fe, New Mexico

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BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
MICHAEL McMILLAN, EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, Michael McMillan, Examiner, and Gabriel  
Wade, Legal Examiner, on October 1, 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.

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I N D E X

CASE NUMBER 15368 CALLED  
 ENCANA OIL AND GAS (USA), INC., CASE-IN-CHIEF:  
 WITNESS MONA L. BINION

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1 (Time Noted 1:30 p.m.)

2 EXAMINER JONES: Let's go back on the  
3 record. On page 5 of the docket, we'll start at the top  
4 again.

5 Let's call case No. 15368, Application of  
6 Encana Oil & Gas (USA), Inc., for Approval of The Good  
7 Times Unit, Creation of a New Pool For Horizontal  
8 development within the unit area, and for allowance of  
9 330 Foot Setbacks from the Exterior of the Proposed  
10 Unit, San Juan County, New Mexico.

11 Call for appearances.

12 MR. FELDEWERT: May it please the Examiner,  
13 Michael Feldewert with the Santa Fe Office of Holland  
14 and Hart, appearing on behalf of the applicant. I have  
15 two witnesses here today.

16 EXAMINER JONES: Other appearances?

17 MR. HALL: Mr. Examiner, Scott Hall,  
18 Montgomery and Andrews Law Firm, Santa Fe, appearing on  
19 behalf of ConocoPhillips Company. I have no witnesses  
20 today.

21 EXAMINER WADE: And Ms. Yazzie, I see you  
22 have your name on the sign-up sheet to make a comment on  
23 this case. Will you still be commenting at the end of  
24 the case?

25 MS. YAZZIE: Yes.

1 EXAMINER WADE: We will give you an  
2 opportunity after the presentation of the case.

3 MS. YAZZIE: Thank you.

4 MR. FELDEWERT: Mr. Examiner, I think we are  
5 prepared to call our first witness. And both witnesses  
6 were already sworn in today.

7 EXAMINER JONES: Let the record reflect that  
8 both witnesses have been sworn.

9 MONA L. BINION  
10 having been duly sworn, was examined and testified as  
11 follows:

12 DIRECT EXAMINATION

13 BY MR. FELDEWERT:

14 Q. Please state your name, identify by whom you are  
15 employed and in what capacity.

16 A. My name is Mona Binion. I am employed by Encana  
17 Oil and Gas as a land negotiator for the San Juan Basin.

18 Q. And, Ms. Binion, you have previously testified  
19 before the Division, correct?

20 A. Yes, I have.

21 Q. And had your credentials as an expert in  
22 petroleum land matters accepted and made a matter of  
23 public record?

24 A. Yes, I have.

25 Q. Are you familiar with the application filed in

1 this particular case?

2 A. Yes, I am.

3 Q. And are you familiar with the status of the lands  
4 in the subject area?

5 A. Yes, I am.

6 Q. I am going to have you turn to what has been  
7 marked as Encana Exhibit No. 1. Would you please first  
8 identify this exhibit and explain what the company seeks  
9 under this application.

10 A. Exhibit 1 is a visual of the proposed Good Time  
11 Unit area, which is shown in the center of the map, in  
12 bold black outline. And also depicted on the map are  
13 the existing OCD pools in the neighborhood of the --  
14 adjacent to, in the vicinity of and within the proposed  
15 Good Time Unit outline.

16 Encana seeks the approval of the Oil and Gas  
17 Division to approve the proposed Good Times Unit to  
18 create a new horizontal pool across the unit area with  
19 an allowance of 330-foot setbacks along the boundary,  
20 the exterior boundary of the unit.

21 Q. If I turn to what has been marked as Encana  
22 Exhibit No. 2, is this a copy of the unit agreement for  
23 this particular acreage?

24 A. Yes, it is.

25 Q. And if I look at the page 1, it reflects that

1 this acreage for this particular unit is 14,706.5 acres;  
2 is that correct?

3 A. Yes, it is.

4 Q. Did the application filed with the Division  
5 incorrectly list 14,146 acres instead of 14,706?

6 A. Yes. That figure was generated from a  
7 preliminary Exhibit B that was prepared for presentation  
8 to the BLM, which we later were advised was in error on  
9 a few tracts we had the long acreage amount. But the  
10 acreage described was accurate.

11 Q. Okay. So to be clear, while the total acreage  
12 was off by roughly 560 acres, the description of the  
13 acreage, the section, the township, the range, and  
14 whether it was a half section or a quarter section, that  
15 all was corrected; is that right?

16 A. Yes. That is correct.

17 Q. In Exhibit No. 2, we then have -- attached to it  
18 is Exhibit A that identifies the unit acreage and  
19 reflects the contribution of the federal lands, the  
20 state lands, the patented lands, and any Indian allotted  
21 lands to the total unit area?

22 A. Yes.

23 Q. And it reflects that the federal acreage here  
24 comprises just over 88 percent, correct?

25 A. Correct.

1 Q. And then Exhibit B provides the ownership  
2 percentage by tract?

3 A. Yes, it does.

4 Q. Does this agreement follow the federal form?

5 A. It follows the standard federal undivided unit  
6 agreement form, modified slightly to be limited to  
7 horizontal drilling and development, and limited to a  
8 specific single interval.

9 Q. And is that interval then reflected in Exhibit C  
10 to the unit agreement?

11 A. Yes. Exhibit C is a type log which shows in  
12 brackets on the log the proposed unit interval.

13 Q. And then for a further description of the  
14 interval itself, that is set forth in paragraph 3 of the  
15 unit agreement, correct?

16 A. Correct, page 2, paragraph 3.

17 Q. Under this agreement, will the entire unit area  
18 be immediately treated as a single participating area?

19 A. Yes.

20 Q. And then with respect to the effective date of  
21 this agreement, it indicates it's going to be March 1,  
22 2014; is that right?

23 A. Yes.

24 Q. And is that to accommodate the inclusion of  
25 existing horizontal wells within the unitized area?

1 A. Yes, it is.

2 Q. Now, have you visited with the BLM and the New  
3 Mexico State Land Office and the Federal Indian Minerals  
4 Office about this proposed unit?

5 A. Yes, we have.

6 Q. And if I turn to what has been marked as Encana  
7 Exhibit No. 3, is that the preliminary approval letter  
8 from the New Mexico State Land Office?

9 A. Yes, it is.

10 Q. And if I turn to what's been marked as Encana  
11 Exhibit No. 4, is that the preliminary approval letter  
12 from the Bureau of Land Management?

13 A. Yes, it is.

14 Q. How many working interest owners are involved  
15 with this particular unit?

16 A. There are nine individual working interest owners  
17 identified in this unit besides Encana.

18 Q. Okay. And are you in the process of having  
19 discussions with each of these working interest owners  
20 about agreeing to this voluntary unit?

21 A. Yes.

22 Q. If I then turn to what has been marked as Encana  
23 Exhibit No. 5, does this show the unit outline and then  
24 at this point in time at least the development plan for  
25 this particular unit?

1           A. Yes. This map depicts the initial preliminary  
2 proposed full development of the unit and the layout of  
3 the well pattern.

4           Q. And is the company required under this unit  
5 agreement to submit annual development plans to the  
6 authorized officer for the BLM?

7           A. Yes. The unit agreement provides, in paragraph  
8 10, that an annual plan of development will be submitted  
9 to the BLM and the state division for approval on an  
10 annual basis.

11          Q. And we have representatives in here from the New  
12 Mexico State Land Office, so I'm glad you included them  
13 for submission of the annual plan.

14          A. Yes, that's what paragraph 10 says.

15          Q. All right. And then looking at Encana Exhibit  
16 No. 5, has the initial unit horizontal well already been  
17 drilled?

18          A. Yes, it has.

19          Q. And looking at Exhibit No. 5, can you identify  
20 for us where that is located?

21          A. The initial well is located in section 18,  
22 Township 24 North, Range 9 West, the north half of the  
23 south half. The well that's shown -- there's a lateral  
24 showing in that 160 acre tract.

25          Q. Okay. And under paragraph 9 of the unit

1 agreement, the BLM has agreed to treat this well as the  
2 unit well once this is approved, correct?

3 A. Yes.

4 Q. And then as well also there are three other  
5 existing horizontal wells that will be brought into the  
6 unit as unit wells?

7 A. Yes.

8 Q. And those are listed in paragraph 9 of the unit  
9 agreement.

10 A. Yes.

11 Q. And going to the other aspect of your  
12 application, if I go back to Encana Exhibit No. 1, does  
13 this identify the pools that are involved -- the current  
14 Division oil pools that are involved with the unitized  
15 acreage?

16 A. Yes, it does.

17 Within the unit boundary, there exists,  
18 currently, the B Star Lower Gallup Pool and the South  
19 Bisti Lower Gallup Pool, as well as the Basin Mancos  
20 Pool.

21 Q. And with respect to the South Bisti Pool and the  
22 Bisti Lower Gallup Pool, are those pools currently  
23 subject to 330-foot setbacks?

24 A. Yes, they are.

25 Q. And with respect to the remaining acreage in the

1 Basin Mancos Gas Pool, is that acreage currently subject  
2 to 660-foot setbacks?

3 A. Yes, they are.

4 Q. Now, to provide uniformity within this unit, do  
5 you seek to create a horizontal oil pool for this  
6 unitized acreage that will allow for wells to be located  
7 anywhere within the units so long as the completed  
8 interval is at least 330 feet from the outer boundary of  
9 the unit area?

10 A. Yes.

11 Q. And will that allow the company to orient its  
12 horizontal wells for efficient development?

13 A. Yes, it will.

14 Q. In preparing for this hearing, did the company  
15 identify and then provide notice to the tracts within  
16 the Basin Mancos gas pool that are offsetting your unit  
17 acreage?

18 A. Yes. We notified working interest owners and  
19 operators in the Basin Mancos Gas Pool tracts offsetting  
20 the unit boundary.

21 Q. Because that acreage is currently subject to  
22 660-foot setbacks?

23 A. Correct.

24 Q. Did the company also identify and provide notice  
25 of this hearing to the working interest owners within

1 the unit?

2 A. Yes.

3 Q. The Indian allottees within the unit?

4 A. Yes.

5 Q. And are there overrides within this unit?

6 A. There are overrides within this unit.

7 Q. And did the company also provide notice to those  
8 overrides?

9 A. Yes, we did. We notified overrides.

10 Q. And did that notice letter not only provide  
11 notice of this hearing but also provide these parties  
12 with a copy of the unit agreement?

13 A. Yes, it did.

14 Q. And that unit agreement that was provided to  
15 them, that reflected the correct total acreage, right?

16 A. Yes, it did.

17 Q. And is Encana Exhibit No. 6 an affidavit prepared  
18 by my office with the attached letters providing the  
19 notice we just discussed?

20 A. Yes, it is.

21 Q. And, finally, if I turn to what's been marked as  
22 Encana Exhibit No. 7, is that the affidavit of  
23 publication for this hearing?

24 A. Yes, it is.

25 Q. And notice of this hearing was also then

1 published in the Farmington Daily Times?

2 A. Yes.

3 Q. Ms. Binion, were Encana Exhibits 1 through 5  
4 prepared by you or compiled under your direction and  
5 supervision?

6 A. Yes, they were.

7 MR. FELDEWERT: Mr. Examiner, I move the  
8 admission into evidence of Encana Exhibits 1 through 7,  
9 which includes the two notice affidavits.

10 MR. HALL: No objection.

11 EXAMINER JONES: Exhibits 1 through 7 are  
12 admitted.

13 (ENCANA OIL & GAS (USA) INC. EXHIBITS 1  
14 through 7 WERE OFFERED AND ADMITTED.)

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

17 MR. HALL: And I have no questions.

18 EXAMINATION BY EXAMINER McMILLAN

19 EXAMINER McMILLAN: Would you object to an  
20 operator who wanted to drill or create a project area  
21 330 feet from the unit boundary in the Basin Mancos?

22 THE WITNESS: No, we would not.

23 You mean outside the unit?

24 EXAMINER McMILLAN: Yes.

25 THE WITNESS: Yes. We would not.

1 EXAMINER JONES: Do you want that to be part  
2 of the order in this case?

3 THE WITNESS: That's at your discretion. We  
4 would not object to that.

5 EXAMINER McMILLAN: My next question is in  
6 section 28. Why didn't you contract part of the Pinon  
7 Unit so you could have the whole section?

8 THE WITNESS: Sorry. Section 28?

9 EXAMINER McMILLAN: Yes.

10 THE WITNESS: The Pinon Unit has already  
11 been drilled. It's an official unit. It's a formal  
12 unit. And we've already drilled two wells since the  
13 unit formation there.

14 And the parties that own that section 28  
15 paid their share of the cost of that well. To contract  
16 it out would take them out of those wells. Well, they  
17 may not object to that, but it is not equitable to do  
18 that right now.

19 EXAMINER McMILLAN: Okay.

20 THE WITNESS: And, actually, at the time we  
21 formed Pinon, we didn't know that we would be forming  
22 another unit south. The plan evolved as time went on.

23 EXAMINATION BY EXAMINER JONES

24 EXAMINER JONES: They are keeping you busy  
25 forming units here, aren't they?

1 THE WITNESS: Yes, sir.

2 EXAMINER JONES: This one I asked in a  
3 previous case. The segregation clause that they put in,  
4 what does that consist of?

5 THE WITNESS: Any federal lease where part  
6 of the lease is considered within the unit and has been  
7 committed to the unit and part of the lease is outside  
8 of the unit, we'll segregate that lease.

9 The portion inside will be either given a  
10 new number or left with a base lease number. And then  
11 the part outside will be given a different number.

12 EXAMINER JONES: So it is strict  
13 segregation?

14 THE WITNESS: It is an absolute and it  
15 happens in all cases. If the lease is not committed to  
16 the unit, then no segregation occurs.

17 EXAMINER JONES: Do you have any feedback on  
18 this horizontal pool that you want formed as far as the  
19 attributes of that pool, you know, allowables, limiting  
20 GOR, spacing? It's going to be an oil pool, correct?

21 A. Right. And we would expect it to be subject to  
22 the state rules.

23 EXAMINER JONES: Statewide?

24 THE WITNESS: Right. But it would just be  
25 one project area within the federal unit outline because

1 it would be one participating area.

2 EXAMINER JONES: So one property --

3 THE WITNESS: Correct.

4 EXAMINER JONES: And the formation of that  
5 pool would be -- to steal Gabe's question here -- would  
6 be at the end of this -- whenever the order comes out at  
7 the first of the month?

8 THE WITNESS: Correct.

9 EXAMINER WADE: Can we piggyback on that  
10 since we're talking about pools?

11 EXAMINER JONES: Go ahead.

12 EXAMINATION BY EXAMINER WADE

13 EXAMINER WADE: You are not asking that the  
14 pool formation be backdated; you are asking that it be  
15 formed along with the order. So how does allocation  
16 work on existing wells? Are they reporting up until the  
17 formation of this new pool to whatever existing pool  
18 that they're in?

19 THE WITNESS: Exactly. We are currently  
20 reporting and will continue to report until the unit is  
21 put in place and the order goes into effect. And at  
22 that point, any adjustments, changes, or whatever would  
23 be at the direction of the State. We will be able to  
24 report however we are directed to report.

25 And then among the working interest owners,

1 we should be able to deal with how we reallocate revenue  
2 and entitlements in that agreement contractually.

3 EXAMINER WADE: Okay.

4 THE WITNESS: But we are waiting on  
5 direction from the State as to how they would direct us  
6 to make, you know, changes once the pool goes into  
7 effect.

8 EXAMINER WADE: In other words -- I guess I  
9 don't quite understand the direction part as far as  
10 after a new pool is formed, how to actually start  
11 reporting to that pool --

12 THE WITNESS: No. How to address the prior  
13 production and revenue, how they want us to do create --  
14 effectuate that adjustment, make the adjustments.  
15 Because the contractual arrangement will say, the  
16 parties are entitled to go back to date of production.

17 That's the contractual arrangement the  
18 parties will be entering into under the unit agreement,  
19 the unit operating agreement.

20 How we want to make adjustments to end up to  
21 result in that entitlement being spread around is the  
22 direction that we need, because it is our understanding  
23 that ONGARD does not work well with doing a retroactive  
24 rebooking of anything so that we could go other  
25 alternative routes.

1           We need a direction on what route you would  
2 want us to take.

3           EXAMINER JONES: The only way is to have a  
4 backdated pool.

5           EXAMINER WADE: I guess that didn't quite  
6 get me to where I thought -- I don't think we would give  
7 any further direction.

8           My understanding, on the one part, is that  
9 you are saying you can handle reallocation  
10 contractually, and then, on the other hand, we are going  
11 to have to do something with ONGARD to get you to that  
12 point.

13           MR. FELDEWERT: If I may.

14           EXAMINER JONES: Yes.

15           RE-DIRECT EXAMINATION

16 BY MR. FELDEWERT:

17       Q. Ms. Binion, in terms of, first off, the company  
18 is not asking that they create a retroactive pool,  
19 correct?

20       A. No, we are not.

21       Q. As a result, do you see any need to reallocate  
22 production with your administrative filings?

23       A. No, we don't see any need to actually go back and  
24 rebook production.

25       Q. On the other hand, you can address the

1 reallocation of revenue contractually, correct?

2 A. Correct. In other words, we can make, for  
3 example, a one-time settlement and bring everyone up  
4 currently as though the entitlements were given that way  
5 during the time production occurred; without changing  
6 production, just make a one-time settlement with  
7 everyone to get everyone started on the settled foot and  
8 going forward once the pool is in place.

9 EXAMINER JONES: That includes royalty?

10 THE WITNESS: Right.

11 MR. FELDEWERT: Yes.

12 Q. And have you had discussions with the Aztec  
13 District Office about this?

14 A. I have asked if that was an option, and I didn't  
15 get any response. I mean, they were deferring to the  
16 state office to make a recommendation as to how to deal  
17 with it.

18 Q. And so the Aztec Office, at least from your  
19 perspective, hasn't been informed that there is no need  
20 to actually reallocate administratively --

21 A. Right, right.

22 Q. -- so there may be some confusion?

23 A. We have not proposed that to them, yes.

24 Q. And what you are saying at this hearing is there  
25 is no need, from an administrative standpoint, to

1 reallocate prior production, that the new pool can go  
2 into effect when the order goes into effect?

3 A. Right.

4 Q. And that the parties can deal with the prior  
5 allocation of production contractually?

6 A. Correct. The unit agreement does not discuss how  
7 the accounting occurs. It just explains this is an  
8 entitlement. Parties are entitled to this production.  
9 How it gets divided up is up to the parties to settle  
10 up. So, contractually, we are not bound to rebook to do  
11 anything that wouldn't fit with our accounting systems.

12 EXAMINER WADE: So you don't really need any  
13 more direction from the state, from the Division, unless  
14 something comes up between Santa Fe's discussions with  
15 the Aztec office --

16 THE WITNESS: Right.

17 EXAMINER WADE: -- you just need a pool  
18 formed; you can handle everything contractually  
19 retroactively?

20 THE WITNESS: Exactly.

21 Q. (By Mr. Feldewert:) So what we first need is an  
22 order.

23 A. Exactly.

24 I did propose that type of alternative to the  
25 BLM, and they didn't see any reason why we couldn't

1 handle it that way, because that would satisfy  
2 everyone's concerns about any kind of rebooking or pools  
3 or effective dates or whatever. They didn't see any  
4 reason why we couldn't handle that for their royalties  
5 there, too.

6 EXAMINER WADE: Did you happen to have that  
7 same discussion with the State Land Office?

8 THE WITNESS: I haven't talked to them about  
9 that yet, because I had just kind of brought it up with  
10 the BLM before we had this hearing so that I could  
11 answer that question. But I have not spoken to the  
12 state about it.

13 EXAMINATION BY EXAMINER JONES

14 EXAMINER JONES: But the BLM can handle the  
15 different federal leases and they can handle the money,  
16 the allocation; once you give them a check, they can  
17 allocate the leases based on this agreement?

18 THE WITNESS: I would assume so, because  
19 that is what I was led to believe. But I am sure we  
20 would have to talk to someone specifically in O and R  
21 to see how they would want it reported.

22 But they would just give us a direction on  
23 how they want to see it reported. And we'd just report  
24 it the way it's needed.

25 I don't see any reason why we couldn't

1 administer it however it fits their system, with the  
2 pools the way we are planning on doing them and  
3 everything set in stone. The agreement is what the  
4 entitlement -- I mean the entitlement is created under  
5 that unit agreement. And that's what they go by.

6 EXAMINER JONES: So the vertical owners in  
7 this unit area, who's the owners of the vertical wells  
8 in the Mancos?

9 THE WITNESS: Chris, are you aware? I  
10 really have not listed the vertical wells in the unit to  
11 know.

12 EXAMINER JONES: But they would -- they are  
13 aware of this, they have been noticed of the fact  
14 that -- their allowables will get primacy, of course.  
15 But their allowables will go by their pools, and your  
16 allowables will go by the new pool that is created. The  
17 point is they are probably the same owners, aren't they?

18 THE WITNESS: I would expect the owners of  
19 the leasehold interest in the Mancos formation are also  
20 going to be the operators. So if they are an operator,  
21 they should have a leasehold on the Mancos and should  
22 have been noticed on that basis.

23 But I didn't make a special effort to  
24 determine who operated vertical wells within the unit.  
25 I did on the outside of the unit, so that we made sure

1 we noticed those parties. But inside the unit, I didn't  
2 make that special effort. So I can't say for sure  
3 whether or not --

4 EXAMINER JONES: So we can't say for sure  
5 that they are okay with your creating another pool  
6 within the same formation with just a pool for  
7 horizontal versus verticals?

8 THE WITNESS: I can't say with absolute  
9 certainty, no. But I can tell you I would find it very  
10 unusual to see an operator in there that had no  
11 leasehold interest in the formation. It would be  
12 unusual.

13 EXAMINER JONES: We don't see anybody  
14 showing up today.

15 THE WITNESS: Correct.

16 EXAMINER JONES: Joe Hewitt signs a  
17 preliminary approval. He's a geologist with the BLM.  
18 But the preliminary approval for the State Land Office  
19 has to be signed by the Commissioner. It seems to be  
20 kind of a -- that's just the way they chose to  
21 allocate --

22 THE WITNESS: I can't speak to that. I  
23 really don't know.

24 EXAMINER JONES: And is the JOA that you're  
25 going to create -- you probably already have one worked

1 out.

2 THE WITNESS: We have a form of agreement  
3 that has been generally accepted by the parties that are  
4 in most of these units. There are some new players that  
5 are going to be looking at it a little bit closer.

6 We may need to add some additional  
7 provisions that discuss how to do the retroactive  
8 adjustments and create that settlement. But we are kind  
9 of waiting to make sure that all of this is acceptable  
10 under these orders and how that is going to all fit  
11 together to create that provision.

12 But other than that, the rest of the unit  
13 operating agreement has been generally accepted by the  
14 all the parties.

15 EXAMINER JONES: Will you have terms in  
16 there for somebody that doesn't want to participate in a  
17 well?

18 THE WITNESS: Yes.

19 EXAMINER JONES: Can you describe those  
20 terms?

21 THE WITNESS: Well, there's two ways  
22 somebody cannot participate in a well in the agreement.  
23 There's going to be someone that has not committed to  
24 the unit at all, so they are not subject to the  
25 unit.

1           And so the parties that are subject to the  
2 unit agree on how we are going to treat that party and  
3 how we'll deal with it.

4           There is also provisions where the parties  
5 that have committed to the unit receive a proposal from  
6 either a working interest owner or the unit operator.  
7 They don't want to pay their share, and there are  
8 provisions to allow them not to participate.

9           And there are penalties that are similar to  
10 but a little bit higher than what is included in your  
11 orders for compulsory pooling.

12           EXAMINER JONES: Okay. You call this an  
13 undivided unit, which -- the BLM, are they expressly  
14 calling this an all PA unit?

15           THE WITNESS: Yes.

16           EXAMINER JONES: That's all the questions I  
17 have. Gabe, do you have any more questions?

18           EXAMINER WADE: I don't have any more  
19 questions.

20           MR. FELDEWERT: Call the next witness?

21           EXAMINER JONES: Yes.

22                           CHRIS CASSLE  
23 having been duly sworn, was examined and testified as  
24 follows:

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DIRECT EXAMINATION

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BY MR. FELDEWERT:

Q. Would you please state your name, identify by whom you are employed, and in what capacity.

A. My name is Chris Cassle, a geologist at Encana on the San Juan Basin team.

Q. Mr. Cassle, you have previously testified before the Division, correct?

A. Correct.

Q. And had your credentials as an expert in petroleum geology accepted and made a matter of public record?

A. Yes.

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

A. I am.

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

A. Yes, I have.

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

MR. HALL: No objection.

EXAMINER JONES: He is so qualified.

Q. Please turn to what has been marked as Encana Exhibit No. 8. Is that a type log that correctly

1 identifies the unitized interval?

2 A. Yes, it is.

3 Q. And is this the same type log for the well that  
4 is identified in the unit agreement as indicative of the  
5 unitized interval?

6 A. Yes, it is.

7 Q. Does this proposed unitized interval extend  
8 across the acreage that Encana seeks to unitize?

9 A. Yes, it does.

10 Q. And have you prepared a structure map and some  
11 cross sections to demonstrate this?

12 A. Yes, I have.

13 Q. If I turn to what's been marked as Encana  
14 Exhibit No. 9, is this your structure map?

15 A. Yes, it is.

16 Q. Would you please identify what you show on here  
17 and what you observe?

18 A. Yes. This is a structural contour map, subSea  
19 depths for the top of the Mancos with a contour interval  
20 of 20 feet.

21 The proposed unit outline is outlined with the  
22 red line. And the two cross sections are identified A  
23 to A Prime from northwest to roughly southeast. B to B  
24 Prime, from southwest to northeast.

25 And the regional dip is gentle to two to three

1 degrees to the northeast. There are not identifiable  
2 structural difficulties or faulting that have been  
3 identified. And the yellow star represents where the  
4 type log location was.

5 Q. For the previous exhibit?

6 A. For the previous exhibit, yes.

7 Q. Now then, let's turn to your -- let me step back.

8 The wells that you have chosen to do your  
9 analysis, your A to A Prime wells and your B to B Prime  
10 wells, in your opinion are those wells representative of  
11 the interval and the area that the company seeks to  
12 unitize?

13 A. Yes, they are.

14 Q. And let's turn to what has been marked as Encana  
15 Exhibit 10. Is this your cross section for your A to A  
16 Prime?

17 A. Yes, it is.

18 Q. And for this particular exhibit, we have a  
19 smaller version in the packet. And if the Division  
20 Examiners are interested, a much larger version of the  
21 cross section is included in the package, correct?

22 A. Correct.

23 Q. Would you please walk us through this exhibit.

24 A. Yes. So this cross section from A to A Prime  
25 again runs from northwest to roughly southeast across

1 the proposed unit area. Each of the log tracts start  
2 with gamma ray on the left-hand side with sandstones  
3 highlighted in yellow and shalier intervals with the  
4 darker colors.

5 The center tract is resistivity which highlights  
6 the presence of hydrocarbon. And then the right-hand  
7 log tract is the porosity column. And the cross section  
8 shows that there is uniform thickness across the area  
9 and uniform geological properties.

10 Q. And for this particular cross section, you were  
11 able to identify well logs that penetrated the entire  
12 unitized interval?

13 A. Yes, I was.

14 Q. And let's turn to what has been marked as Encana  
15 Exhibit 11. Is this your cross section B and to B  
16 Prime?

17 A. Yes, it is.

18 Q. And, once again, for purposes of the record, we  
19 have a smaller version that's marked as an exhibit, and  
20 in the package is a much larger cross section map,  
21 correct?

22 A. That's correct.

23 Q. Is your cross section here set up the same way as  
24 the prior exhibit?

25 A. Yes, it is, running from southwest to northeast

1 in this case.

2 Q. And in this case, you were also able to identify  
3 four wells that penetrated the entire unitized interval,  
4 correct?

5 A. Yes, I was.

6 Q. Does this confirm your observations and opinions  
7 that you testified to with respect to the A to A Prime  
8 cross section?

9 A. Yes, it does. The geology is consistent in its  
10 thickness and general physical properties across the  
11 area.

12 Q. Okay. Mr. Cassle, are you familiar with the  
13 technical and reservoir characteristics of the  
14 hydrocarbons that you expect to produce from the  
15 unitized interval in this particular area?

16 A. Yes, I am.

17 Q. Do you recognize that there are three different  
18 pools involved with the unitized area, correct?

19 A. Correct.

20 Q. Is the production from all three of those pools,  
21 when looking at the pressure gradients, generally the  
22 same?

23 A. They are generally the same.

24 Q. Are the fluids compatible?

25 A. Yes, the fluids are compatible.

1 Q. And what do you observe with respect to the API  
2 gravity of the oil?

3 A. It is consistent across the area at 39 to  
4 40 degrees API.

5 Q. And based on your analysis, in your opinion, are  
6 there any faults, pinch-outs or other geologic  
7 impediments that will prevent this acreage from being  
8 efficiently developed under a unit plan using horizontal  
9 wells?

10 A. There are not.

11 Q. In your opinion, will the approval of this  
12 application be in the best interest of conservation, the  
13 prevention of waste, and the protection of correlative  
14 rights?

15 A. Yes, it will.

16 Q. Were Encana Exhibits 8 through 11 prepared by you  
17 or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. FELDEWERT: Mr. Examiner, I would move  
20 into evidence Encana Exhibits 8 through 11.

21 EXAMINER JONES: Any objection?

22 MR. HALL: No objection.

23 EXAMINER JONES: Exhibits 8 through 11 are  
24 admitted.

25 (ENCANA OIL & GAS (USA) INC. EXHIBITS 8

1 through 11 WERE OFFERED AND ADMITTED.)

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

4 EXAMINATION BY EXAMINER McMILLAN

5 EXAMINER McMILLAN: Where is your target  
6 interval?

7 THE WITNESS: The target interval is, once  
8 again, the same as the previous case, at the base of the  
9 Gallup, pretty much on top of where the base Gallup line  
10 is in the cross section.

11 EXAMINER McMILLAN: Why didn't you include  
12 your type log in your cross sections?

13 THE WITNESS: This unit was done previously  
14 by -- started by another member of my team, and I didn't  
15 select the type logs.

16 EXAMINER McMILLAN: But it's your work.

17 THE WITNESS: It is my work.

18 EXAMINER McMILLAN: You are up here  
19 testifying --

20 THE WITNESS: Correct.

21 EXAMINER McMILLAN: If you come back, you  
22 have to tie that well. That's, simply put, not good  
23 work.

24 THE WITNESS: Okay.

25 EXAMINER JONES: He was a geophysicist.

1 THE WITNESS: I understand.

2 EXAMINER McMILLAN: Go ahead.

3 EXAMINER JONES: Okay.

4 EXAMINATION BY EXAMINER JONES

5 EXAMINER JONES: I guess the big question I  
6 got is we've got a new geologist in the Aztec Office,  
7 and do you talk to her now and then?

8 THE WITNESS: I have not spoken to her.

9 EXAMINER JONES: She is making big plans out  
10 here, so you guys should talk to her --

11 THE WITNESS: Absolutely.

12 EXAMINER JONES: -- and kind of coordinate  
13 things. The well, is this a similar deal where you are  
14 going to drill --

15 THE WITNESS: Transverse oriented.

16 EXAMINER JONES: Okay. That, hopefully,  
17 refracs the lower five and also the well --

18 THE WITNESS: Correct.

19 EXAMINER JONES: And you'll get the most  
20 reserves.

21 And what about the -- is this a gassy area,  
22 because we have a lot of associated pools in these  
23 Gallups, and that means that there's been issues about  
24 whether gas was being used and making sure it wasn't  
25 blown off the reservoir to cause damage to the oil.

1           Compared to the other one, is it going to be  
2 more gassy, do you think?

3           THE WITNESS: I don't think there is going  
4 to be a significant difference in the gas production  
5 between these units that we are proposing.

6           EXAMINER JONES: What about GOR? Just  
7 roughly producing GOR, what do you think?

8           THE WITNESS: I am not a reservoir engineer,  
9 so I couldn't really comment on that.

10          EXAMINER JONES: Well, did you pick the  
11 Gallup base as the target?

12          THE WITNESS: No -- the exploration team at  
13 Encana identified that as our primary target. It is on  
14 top -- it's not the actual line there, but the unit  
15 right on top of that Gallup base is our target.

16          EXAMINER JONES: And what other targets  
17 would you pick?

18          THE WITNESS: We have also looked into the  
19 Sandia interval toward the top of the Gallup where we  
20 have that higher resistivity, and we have drilled a  
21 few --

22          EXAMINER JONES: Is that at the top of the  
23 Mancos?

24          THE WITNESS: No. Right where the Gallup  
25 line is, where the cross section is flattened onto that

1 line, just below that.

2 EXAMINER JONES: Okay.

3 THE WITNESS: And we have drilled a few test  
4 wells in that thus far.

5 EXAMINER JONES: And these perforations that  
6 are on these cross section logs, they are vertical  
7 wells?

8 THE WITNESS: Yes. These are all existing  
9 wells within the area that we've used the logs from.

10 EXAMINER JONES: Are you happy with the  
11 control you've got out here?

12 THE WITNESS: Fairly happy. For geo  
13 steering purposes, we may need to drill pilot holes  
14 there and there. In some cases, we don't have a really  
15 clean log to steer from, but we have fairly good well  
16 control throughout the area.

17 EXAMINER JONES: But, generally, can you say  
18 that the reservoir and the geology are -- the formation  
19 is continuous across this proposed unit area?

20 THE WITNESS: Yes, we can.

21 EXAMINER JONES: And, again, will the fresh  
22 water be protected by your surface casing --

23 THE WITNESS: It will, yes.

24 EXAMINER JONES: As far as picking the  
25 depths of the surface casing, in the San Juan it's

1 sometimes a bit of a question.

2 So when you permit these wells, you can work  
3 with your permitting people and our geologist in Artesia  
4 or Aztec to make sure that the depth is sufficient to do  
5 that.

6 THE WITNESS: We will certainly do that.

7 EXAMINER JONES: Thanks a lot.

8 THE WITNESS: Thank you.

9 MR. FELDEWERT: Mr. Examiner, that concludes  
10 our presentation. And we ask that this case be taken  
11 under advisement.

12 EXAMINER WADE: Before we take it under  
13 advisement, we do have, I think -- a couple of people  
14 have signed up to make comments, Lucinda Yazzie and  
15 Lorenzo Begay. I don't know if Mr. Begay does want to  
16 comment or not.

17 So, Ms. Yazzie, would you like to come up  
18 and have a seat and make your comments?

19 MS. YAZZIE: My name is Lucinda Yazzie. I  
20 am here on behalf of my mother, Sara B. Yazzie. She  
21 received a letter, I guess, from the lawyer's office in  
22 regards to the Encana Company doing some drilling in an  
23 allottee area that was going to be involved in the  
24 allotment that she has some interest in.

25 And she just wanted to bring up a few things

1 that she thought maybe she could remind the oil and gas  
2 companies when they are out and about in that area  
3 because there is a lot of drill going on out there.

4 Our family has BLM grazing land out in that  
5 area. Encana has been drilling out in that area. In  
6 another area -- when you named Pinon, I remembered seein  
7 that on that area. And I think it is called the Pinon  
8 Unit D-14 2410 O-1H Unit D and Unit E. They are all  
9 very similar to the same number.

10 But it just brings up a lot of other issues,  
11 where she wanted to mention that there is a lot of  
12 traffic going in and out of those remote areas where  
13 there are homes of elderly people that live in that  
14 area. The big water trucks seem to run down the roads,  
15 driving fast.

16 There's open grazing in most areas, so  
17 there's a lot of cattle or livestock that can or should  
18 be considered. They do have some running water. And I  
19 heard you all talking about water sources out there, so  
20 it is good that that is being addressed.

21 And the roads, I think there's a county road  
22 and some of them are state roads out in that area that  
23 seem to take a toll as a result of fast moving large  
24 vehicles carrying a lot of water or just all the weight,  
25 especially in inclement weather.

1           You know, you have regular, little vehicles  
2 that have to criss-cross across the roadways to either  
3 get back home or get back to the main highway. And they  
4 don't have four-wheel drive. They usually have little  
5 vehicles and stuff like that. Or they have to drive and  
6 get water for their cattle, too, so they still have to  
7 get back and forth on those roads.

8           And, then, also, just to be wary of your  
9 berms. You have this one area where the Pinon Unit is,  
10 there's some high berm areas. And I know there is a  
11 regulation for that.

12           But her main concern was that a small calf  
13 can venture down in there and get caught and not be able  
14 to get out. So she just wanted to make sure that  
15 everything was going to be addressed on those issues and  
16 just be aware that, you know, we are all in the office  
17 here and we don't see the exact, day-to-day living  
18 situations that the people in the area have to deal  
19 with, and just so you are aware of it.

20           EXAMINER WADE: Ms. Yazzie, you mentioned  
21 something interesting to me out in the hall earlier, and  
22 this is in regards to an earlier case. Do you think  
23 that the Durango Herald is a widely read paper in your  
24 area?

25           MS. YAZZIE: My mom heard that mentioned.

1 She said, as far she as she knows, she has never, ever  
2 read the Durango Herald and no one in the area reads the  
3 Durango newspapers.

4 I did check circulation on the Internet.  
5 And they only circulate to the southern Colorado area.  
6 And I have never seen a publication in New Mexico, least  
7 of all in the Farmington area, which is the closest area  
8 to that.

9 And most of the people in that area are so  
10 remote -- I mean I know a lot of the allottees -- well,  
11 maybe not in just this unit but in several of the other  
12 units that probably have upcoming or have come to pass  
13 is a lot of the allottees don't know enough to go and  
14 update their information. They have P.O. boxes. They  
15 change P.O. boxes sometimes like their cars, you know,  
16 every four years, maybe once a year, because they move  
17 from one area of town, maybe from Bloomfield to  
18 Farmington, maybe from Farmington to Kirtland, because  
19 someone got married and they changed addresses or  
20 whatever -- or maybe someone passed away, which is a lot  
21 of them, because, in our days, you have a lot of the  
22 older generation whose names are on the allotments have  
23 passed away, so a lot of those addresses are in probate.  
24 So they don't get notices on that either.

25 And it's a shame that a lot of people don't

1 do the word of mouth, face-to-face, because either they  
2 are going to not know where to go -- you know, you've  
3 got to basically say, This is what I've got. Show them  
4 everything you've got. And they are still going to have  
5 to go run around and do some more research --  
6 information.

7           The letter my mom received, she received the  
8 letter, she received the agreement. In the agreement,  
9 it said that there were some attachments in relation to  
10 maps, three other pages in there which we didn't get.

11           So we had to go and research to find out  
12 which allotment, because her name is on six allotments.  
13 So we had to go back and research and find out which  
14 ones they were including in the unit so that she knew  
15 what area they were talking about, just so she knew  
16 there was going to be work on that area or where any  
17 kind of information was coming from that was related to  
18 Encana.

19           But it's a tedious job, I understand. And I  
20 know it is a -- the list is probably, you know, so long  
21 that you can't get ahold of everybody but you do the  
22 best you can. In that area, the radio station is  
23 probably the next best thing, on KNDN. So that would be  
24 one other area.

25           They do have meetings at the localities, and

1 even at that point, they might mention it on the radio  
2 station, but not everybody has radio tuned in at a  
3 particular time. And it does cost to broadcast.

4 So how do you get it out to everybody? One  
5 community, you're talking the Lybrook area, the Nageezi  
6 area, Counselors, those are just a few communities that  
7 have voting rights for, you know, I don't know how many  
8 people, but it covers a vast amount -- group of people  
9 in those areas. And these allotments include people.

10 This allotment that my mom is on has the  
11 names of people that live in Fruitland, New Mexico, out  
12 west of Farmington. So, you know, they don't live out  
13 in the area or have any ways of probably figuring out  
14 how to get information on it because they don't know  
15 what the allotment that they are talking about is,  
16 because you don't get a map in your letter to even give  
17 you that description. So that just means that they have  
18 to do research, because their names might be on six  
19 other different allotment sites.

20 So you just have a lot more information to  
21 get to. And that is why maybe a lot of people aren't  
22 informed. And they don't hear about it until they see  
23 all the trucks going here and there, Where's that going?  
24 And all of a sudden they get this letter in the mail  
25 saying they have a check. Well, they don't understand

1 once they cash that check, they are a done deal and they  
2 have no say-so.

3 So it is just kind of a hit and miss. Not  
4 to say -- I know things have to be done. There's just a  
5 lot of concern in all these other areas where if you  
6 have a drilling rig, water trucks, contractors, workers,  
7 everybody driving in and out of the area. And there's  
8 probably ten times the trash coming out of there. And  
9 if you have cattle or livestock out there, they are  
10 eating that, too, if they don't contain them.

11 You can do the best you can, but there is  
12 always something going to happen. And a lot of times  
13 the allotments are the -- the people that have livestock  
14 usually don't know what the cause is of their goat,  
15 sheep, cow being deceased, unless they actually have a  
16 veterinarian come out and find out what happened to it.  
17 And so they eat it. And that cost is gone, so what can  
18 they do?

19 And even at that, you know, the big trucks  
20 driving around at night, driving fast, if it's an open  
21 range area, there's no signs that say "Open Range."  
22 It's just you have to know where the cows are at and you  
23 have to know who's got cattle and fences. You know,  
24 sometimes during inclement weather fences get torn down.

25 All the washes we had recently, you know,

1 can tear down some fences and wash out some cattleguards  
2 and things like that. And it does mess up the roads.

3 But, you know -- I mean is there anything  
4 else you wanted to talk about, Mom?

5 MS. SARA B. YAZZIE: No.

6 EXAMINER WADE: Thank you.

7 MS. YAZZIE: Just to let you know.

8 MR. WADE: Sir, did you want to make a  
9 comment now?

10 MR. BEGAY: My name is Lorenzo Begay and I  
11 come from the Bisti area. My main concern is after the  
12 drilling is done -- right? -- restoring this land.

13 Sometimes you go to these areas and they're  
14 just left. They take the drills and the top soil is  
15 damaged. And when they come back, reseeded or not, they  
16 left just a scarred area. And the liquids they bring  
17 up, they don't take it to a proper place and dispose of  
18 it. And those are the main concerns, the water.

19 Like, I live in Denver. I had to make this  
20 journey down here. I didn't know what I was facing.  
21 But just like she said, the communication is difficult  
22 out there, so it's a problem in different areas.

23 People tend to step on the residents out  
24 there most often. And they don't know what's going on.  
25 So it should be broadcast on the radio, television,

1 whatever, and research should be done before they come  
2 out and start drilling and stuff like that.

3 That's my main concern. That's it.

4 EXAMINER WADE: Thank you.

5 EXAMINER JONES: Thank you.

6 We are taking case No. 15368 under  
7 advisement.

8 MR. HALL: Mr. Examiner, one thing.

9 EXAMINER JONES: Go ahead.

10 MR. HALL: My client, ConocoPhillips, has  
11 asked me to indicate to you that ConocoPhillips and  
12 Encana have come to a preliminary tentative agreement  
13 for a contribution of Conoco's interest to the unit  
14 subject to documentation. Thank you.

15 EXAMINER JONES: So that was comments and  
16 testimony in case 15368, and we are taking that case  
17 under advisement.

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19

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(Time noted 2:20 p.m.)

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I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_  
\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO )  
 2 ) 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, October 1,  
 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  
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