

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:

APPLICATION OF CHEVRON USA, INC. CASE NO. 15677
FOR APPROVAL OF THE POLVADERA UNIT,
LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 13, 2017

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and Gabriel Wade, Legal Examiner, on Thursday, April 13, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT CHEVRON USA, INC.:

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 6

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1 (9:41 a.m.)

2 EXAMINER McMILLAN: Okay. I would like to
3 call Case Number 15677, application of Chevron USA,
4 Incorporated for approval of the Polvadera Unit, Lea
5 County, New Mexico.

6 Call for appearances.

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

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 The witnesses will please stand up and be
13 sworn in at this time.

14 Thank you.

15 (Ms. Holmes and Mr. Griffin sworn.)

16 SHALYCE HOLMES,
17 after having been first duly sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MS. KESSLER:

21 **Q. Please state your name for the record and tell**
22 **the Examiners by whom you are employed and in what**
23 **capacity?**

24 A. Shalyce Holmes, Chevron USA, Inc., and I'm a
25 land representative.

1 Q. Have you previously testified before the
2 Division?

3 A. No, I have not.

4 Q. Can you please outline your educational
5 background?

6 A. I graduated in 2012 from Texas Tech University
7 with a degree in energy commerce and have been working
8 with Chevron in the Permian Basin since.

9 Q. So the past approximately five years you've
10 worked for Chevron?

11 A. Yes.

12 Q. And during that time, your responsibilities
13 have included the Permian Basin --

14 A. Yes.

15 Q. -- for approximately five years?

16 A. Yes.

17 Q. Are you a member of any professional
18 associations?

19 A. Yes. I'm a member of the AAPL and the PBLA.

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

22 A. Yes.

23 Q. And are you familiar with the status of the
24 lands in the proposed unit area?

25 A. Yes, I am.

1 MS. KESSLER: Mr. Examiners, I would tender
2 Ms. Holmes as an expert in petroleum land matters.

3 EXAMINER McMILLAN: So accepted.

4 I can't say anything bad about Texas Tech
5 or I'll be sleeping outside. My daughter's coming home.

6 Q. (BY MS. KESSLER) Ms. Holmes, can you please
7 turn to Exhibit 1 and identify this exhibit for the
8 Examiners?

9 A. This is our proposed outline of the Polvadera
10 Unit area showing the leases and the lands involved.

11 Q. Is Chevron seeking to pool the Polvadera
12 resource development unit as set forth by the unit
13 agreement?

14 A. Yes.

15 Q. And this is a voluntary development unit,
16 correct?

17 A. Yes.

18 Q. Is it comprised of approximately 1,920 acres?

19 A. Yes, it is.

20 Q. And that land was comprised of two federal
21 leases, correct?

22 A. Yes.

23 Q. You're only seeking to unitize the Bone Spring;
24 is that correct?

25 A. Yes.

1 Q. Does Chevron own 100 percent of the working
2 interest in the proposed area?

3 A. Yes, we do.

4 Q. Are there any overriding royalty interest
5 owners?

6 A. No, there are not.

7 Q. What acreage is within the proposed unit?

8 A. It would be Sections 14, 15 and 23 of Township
9 26 South, Range 32 East, Lea County, New Mexico.

10 Q. And why are you now seeking approval of this
11 unit?

12 A. We were recently made aware that we needed the
13 OCD's approval to enter into this sort of unit
14 agreement.

15 Q. As required by the language of the unit
16 agreement, correct?

17 A. Yes.

18 Q. What pool covers the subject acreages?

19 A. The Bone Spring -- Upper Bone Spring, Jennings
20 Pool.

21 Q. And that will be identified in a later exhibit,
22 correct?

23 A. Yes.

24 Q. The current wells that are drilled within this
25 unit are assigned to that pool, correct?

1 A. Correct.

2 Q. And all future wells that you're aware of in
3 the Bone Spring Formation will also be within that pool?

4 A. Yes.

5 Q. Looking at this map, looking at Section 22, who
6 is the operator in the Bone Spring Formation of Section
7 22?

8 A. Mewbourne Oil Company.

9 Q. So they operate both the north half of the
10 north half and the east half of the east half?

11 A. Yes, they do.

12 Q. Turning to Exhibit 2, is this a letter from
13 Mewbourne stating that they waive the right to notices
14 and to appear in this case?

15 A. Yes.

16 Q. Did you communicate with Mewbourne and provide
17 them notice of this hearing?

18 A. Yes.

19 Q. So they were aware, and they explicitly waived
20 their right to notice?

21 A. Correct. Yes.

22 Q. Is Exhibit 3 a copy of the unit agreement for
23 the resource development unit?

24 A. It is.

25 Q. This a federal form, correct?

1 A. It is.

2 Q. Does this apply only to horizontal development?

3 A. It does.

4 Q. And the area will be -- the unit will be
5 treated as a single participating area, correct?

6 A. Yes, it will.

7 Q. And I'm just briefly going to point you to the
8 second page and the third "Whereas" paragraph. That's
9 where it states the Oil Conservation Division is
10 authorized "to approve this agreement and the
11 conservation provisions hereof"; is that correct?

12 A. Yes.

13 Q. What is Tab A to the unit agreement?

14 A. Tab A is the outline of the unit boundary.

15 Q. And the description of the leases, correct?

16 A. Yes.

17 Q. What is Tab B to the unit agreement?

18 A. It is a scheduled ownership of the leases
19 involved in the unit area.

20 Q. And, once again, Chevron has 100 percent of the
21 working interest, correct?

22 A. Correct.

23 Q. Is Tab C to the unit agreement a type log
24 showing the proposed unitized interval?

25 A. It is.

1 Q. And, again, it only covers the Bone Spring,
2 correct?

3 A. Correct.

4 Q. Did you meet with the BLM to discuss the
5 proposed unit?

6 A. Yes, we did.

7 Q. And is Exhibit 4 a copy of the preliminary
8 approval letter that was provided by the BLM for this
9 unit?

10 A. Yes, it is.

11 Q. In your discussions with the BLM, did you
12 review the nature of the unitized area and the
13 development plans for this area?

14 A. Yes, we did.

15 Q. Have you already drilled wells in the proposed
16 unit area?

17 A. Yes, we have.

18 Q. How many?

19 A. Approximately 12.

20 Q. All in the Upper Avalon; is that correct?

21 A. Correct.

22 Q. Does Exhibit 5 include a copy of the C-102 for
23 each of those 12 wells that has been drilled?

24 A. Yes, it does.

25 Q. And looking at the C-102, just the first 102,

1 that identifies the pool as the Jennings; Upper Bone
2 Spring Shale Pool, correct?

3 A. Correct. Yes.

4 Q. That would be Pool Code 97835?

5 A. Correct.

6 Q. Is Exhibit 8 -- I'm sorry -- Exhibit 6 a copy
7 of the current development in the Bone Spring?

8 A. Yes, it is.

9 Q. So this shows the 12 wells that have been
10 drilled.

11 Does Chevron also intend to drill
12 additional Bone Spring wells in this area?

13 A. Yes, we do.

14 Q. With different targets?

15 A. Yes.

16 Q. And that'll be for future development?

17 A. It will, yes.

18 Q. Did you provide notice of this hearing to the
19 BLM?

20 A. Yes.

21 Q. Is Exhibit 7 an affidavit with letters from my
22 office and a copy of the application that was sent to
23 the BLM?

24 A. Yes, it is.

25 Q. Were Exhibits 1 through 6 prepared by you or

1 **compiled under your direction and supervision?**

2 A. Yes, they were.

3 MS. KESSLER: Mr. Examiner, at this time I
4 would move admission of Exhibits 1 through 7.

5 EXAMINER McMILLAN: Exhibits 1 through 7
6 may now be accepted as part of the record.

7 (Chevron USA, Inc. Exhibit Numbers 1
8 through 7 are offered and admitted into
9 evidence.)

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. **Okay. Have all of the units been developed in**
13 **the proposed unit?**

14 A. Have all the proration units been developed?

15 Q. **Yes.**

16 A. Not all of them, not yet.

17 Q. **And if this is -- this is a resource**
18 **development unit by the BLM. And I assume it starts out**
19 **as 1PA?**

20 A. Yes.

21 Q. **And is there a five-year development with this?**

22 A. Yes, there is.

23 Q. **And will it contract -- and if all of the**
24 **acreage is not developed, will it contract back to the**
25 **spacing of the wells?**

1 A. Correct. Yes.

2 **Q. Okay. And is this done for surface commingling**
3 **issues?**

4 A. A portion, yes.

5 **Q. And where is the undeveloped acreage?**

6 A. The pads listed -- the numbers listed as nine
7 and 12 are currently undeveloped. We've permitted them,
8 but we have not drilled them yet.

9 **Q. Okay. So Section 15 is not developed?**

10 A. Correct. Well, there is one well -- sorry.
11 It's not depicted on this map. It's one well in the
12 furthest -- it's the east half of the east half --
13 sorry -- the west half of the west half of Section 15.
14 But the remainder of the section is not developed.

15 **Q. So what happens on these units if you develop**
16 **another portion of the Bone Spring that's designated in**
17 **another pool that's actually not part -- how does that**
18 **actually work, because the BLM will follow formations,**
19 **and the OCD follows pools?**

20 MS. KESSLER: Mr. Examiner, we discussed
21 this with Ms. Holmes. As far as the undeveloped acreage
22 in the same pool, it's not going to come back to the
23 Division and request a new pool governing the entire
24 Bone Spring acreage. But at this time, it's not
25 expected that that would need to occur.

1 EXAMINER McMILLAN: Go ahead.

2 EXAMINER WADE: I have no questions.

3 EXAMINER McMILLAN: Thank you very much.

4 THE WITNESS: Thank you.

5 CAMERON GRIFFIN,

6 after having been previously sworn under oath, was

7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MS. KESSLER:

10 Q. Will you please state your name for the record
11 and tell the Examiners by whom you're employed and in
12 what capacity?

13 A. Cameron Griffin, Chevron USA, Inc., a
14 geologist.

15 Q. Have you previously testified before the
16 Division?

17 A. No, I have not.

18 Q. Can you please review your educational
19 background?

20 A. I received a bachelor's degree in geology from
21 Brigham Young University in 2011, and a master's degree
22 in geology from the University of Houston in 2013.

23 Q. What has your work experience been since 2013?

24 A. Entirely with Chevron in the Permian Basin.

25 Q. As a geologist?

1 A. Yes.

2 Q. What are your responsibilities as a geologist
3 with Chevron?

4 A. Well planning and execution in the development
5 areas.

6 Q. In the Permian Basin?

7 A. That's correct.

8 Q. Are you a member of any professional
9 associations?

10 A. Yes, I am, the AAPG and the GSA.

11 Q. Are you familiar with the application that's
12 been filed in this case?

13 A. Yes.

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

16 A. I have.

17 MS. KESSLER: Mr. Examiners, I would tender
18 Mr. Griffin as an expert in petroleum geology.

19 EXAMINER McMILLAN: So qualified.

20 Q. (BY MS. KESSLER) Mr. Griffin, let's look at
21 Exhibit 8. Are you familiar with the interval being
22 unitized for the Polvadera Unit?

23 A. Yes, I am.

24 Q. Is Exhibit 8 a type log showing the unitized
25 interval?

1 A. Yes, it is. It's a log taken from the Salado
2 Draw SWD 13-1 located approximately a mile to the east
3 of the proposed unit. The log shows a gamma ray at LLD,
4 which is a deep resistivity tool, and DPH is for
5 resistivity, and it covers the entire Bone Spring
6 interval.

7 **Q. Is this the same log that was used as Exhibit C**
8 **to the unit agreement?**

9 A. Yes.

10 **Q. And what interval is it that Chevron seeks to**
11 **unitize?**

12 A. Chevron seeks to unitize the equivalent -- of
13 the stratigraphic equivalent to the top of the Bone
14 Spring to the base of the Bone Spring, which in this
15 type log occurs at 8,800 TVD and 11,950 TVD.

16 **Q. And does the horizon identified on this log**
17 **extend across the entire unit area?**

18 A. Yes, it does.

19 **Q. What is Exhibit 9?**

20 A. Exhibit 9 is depicting the location of a
21 three-well cross section that is -- that covers the
22 proposed unit.

23 **Q. So do you consider these wells that are used on**
24 **your later cross-section exhibit to be representative of**
25 **Bone Spring wells in the area?**

1 A. Yes, I do.

2 **Q. And this corresponds with a later exhibit,**
3 **correct?**

4 A. Yes, it does.

5 **Q. What is Exhibit 10?**

6 A. Exhibit 10 is structure map of the top of the
7 Bone Springs interval and TVD subsea. It shows,
8 basically, that, as has been stated previously, that the
9 geology is fairly simple and straightforward. It's a
10 gentle dip to the west.

11 **Q. There are no major geologic impediments that**
12 **you've identified in the --**

13 A. Based on offset logs and the seismic, we
14 haven't seen any major faulting or other geologic
15 impediments.

16 **Q. What is Exhibit 11?**

17 A. Exhibit 11 shows a three-well cross section
18 from the map that we saw in Exhibit 10. Again, the logs
19 depict a gamma ray, a neutron-porosity and a
20 density-porosity log, in that order, showing the top of
21 the Bone Spring Formation to the base, which is the
22 equivalent of the Wolfcamp A. As you can see, there is
23 quite a bit of stratigraphic continuity, and the
24 thicknesses remain relatively -- across the area in
25 question.

1 Q. In your opinion -- continuous across the area?

2 A. Yes.

3 Q. And have you observed any evidence of faults or
4 pinch-outs or other geologic hazards that would prevent
5 this acreage from contributing to the overall production
6 of the interval?

7 A. We have not.

8 Q. Can this unitized area, in your opinion, be
9 effectively and efficiently developed under a unit plan?

10 A. Yes.

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

13 A. They were.

14 MS. KESSLER: Mr. Examiners, I'd move
15 admission of Exhibits 8 through 11.

16 EXAMINER McMILLAN: Exhibits 8 through 11
17 may now be accepted as part of the record.

18 (Chevron USA, Inc. Exhibit Numbers 8
19 through 11 are offered and admitted into
20 evidence.)

21 CROSS-EXAMINATION

22 BY EXAMINER McMILLAN:

23 Q. The question I've got is on Exhibit 11. So
24 essentially the pool goes from what you're calling the
25 Avalon A --

1 A. Yes, sir.

2 Q. -- to the Wolfcamp A?

3 A. Yes, sir.

4 Q. Okay.

5 EXAMINER McMILLAN: (Indicating.)

6 EXAMINER WADE: I have no questions.

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

9 Okay. Thank you very much.

10 THE WITNESS: Thank you.

11 EXAMINER McMILLAN: Case Number 15677 shall
12 be taken under advisement.

13 (Case Number 15677 concludes, 9:59 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

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

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

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

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
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