

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 U.S.A., INC. CASE NO. 16112
FOR A NONSTANDARD SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 3, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Scott Dawson, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, May 3, 2018, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

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APPEARANCES

FOR APPLICANT CHEVRON U.S.A., INC.:

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(10:58 a.m.)

EXAMINER McMILLAN: I'd like to call Case Number 16112, application of Chevron U.S.A., Incorporated for a nonstandard spacing and proration unit and compulsory pooling, Eddy County, New Mexico.

Call for appearances.

MR. RANKIN: Mr. Examiner, Adam Rankin with the Santa Fe office of Holland & Hart, appearing on behalf of the Applicant.

EXAMINER McMILLAN: Any other appearances?

MR. RANKIN: Mr. Examiner, I have two witnesses.

EXAMINER McMILLAN: Please stand up at this time and be sworn in.

(Mr. Gutierrez and Ms. Storniolo sworn.)

MR. RANKIN: Mr. Examiner, I'd like to please call my first witness.

EXAMINER McMILLAN: Please proceed.

IRVIN GUTIERREZ,

after having been first duly sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. RANKIN:

Q. Mr. Gutierrez, please state your full name for the record.

1 A. Irvin Gutierrez.

2 Q. By whom are you employed?

3 A. Chevron U.S.A., Inc.

4 Q. And in what capacity?

5 A. Petroleum landman.

6 Q. And how long have you been employed as a
7 petroleum landman?

8 A. For eight years.

9 Q. And have you previously testified before the
10 Division?

11 A. I have not.

12 Q. Will you please review for the Examiners your
13 educational background first?

14 A. I graduated from Texas Tech University in 2010.
15 I started my career with Chevron shortly after that with
16 various roles. I started in San Juan County, New Mexico
17 for a couple of years before moving on to east Texas.
18 And then I got transferred up to Pittsburgh to work the
19 Appalachian assets before, most recently, working the
20 Permian for the last seven months.

21 Q. And are you familiar with the application that
22 was filed in this case?

23 A. I am.

24 Q. And do your responsibilities at Chevron include
25 the area in question in this case?

1 A. It does.

2 **Q. Are you familiar with the lands and the**
3 **ownership interests at issue in this case?**

4 A. I am.

5 MR. RANKIN: Mr. Examiner, I would tender
6 Mr. Gutierrez as an expert in petroleum land matters.

7 EXAMINER McMILLAN: Just so you know, I
8 personally, myself and my family, think a lot of Texas
9 Tech, and it's going to be ending soon.

10 (Laughter.)

11 EXAMINER McMILLAN: So accepted.

12 THE WITNESS: I hope it has no bearing on
13 this.

14 EXAMINER McMILLAN: As long as she
15 graduates. I've had other family members who have gone
16 to graduation and not graduated.

17 Please proceed.

18 **Q. (BY MR. RANKIN) Mr. Gutierrez, will you please,**
19 **by referencing Exhibit Numbers 1, 2 and 3, just review**
20 **in summary what it is that Chevron is seeking with this**
21 **application today?**

22 A. Sure. So Chevron is seeking to propose a
23 640-acre spacing unit comprised of the west half of
24 Section 32, which is Township 23 South, Range 29 East,
25 and the west half of Section 5, which is Township 24

1 South, Range 29 East. We are looking to compulsory pool
2 three two-mile laterals within the Wolfcamp Formation.

3 MR. RANKIN: And just to be clear,
4 Mr. Examiner, we're referencing the amended Exhibits 1,
5 2 and 3, which are in a stapled packet, which I handed
6 out along with the other packet.

7 Q. (BY MR. RANKIN) And is Chevron seeking to drill
8 three -- three initial wells with this application?

9 A. That's correct.

10 Q. And would these wells be pad drilled?

11 A. They will.

12 Q. So they will be drilled one after the other
13 simultaneously?

14 A. That's correct.

15 Q. Now -- and you said you're seeking to pool the
16 Wolfcamp Formation underlying this acreage?

17 A. That's correct.

18 Q. And will Chevron require additional time
19 because these wells will all be drilled at the same time
20 and completed at the same time?

21 A. That's correct. So we would request 200
22 additional days.

23 Q. So a total of -- the normal time frame is 120
24 days to drill and complete a well?

25 A. That's correct.

1 Q. You're asking for a total of 320 days?

2 A. That's correct.

3 Q. Will that be sufficient time, to the best of
4 your knowledge at that point, to do that work?

5 A. To the best of my knowledge, yes.

6 Q. And if Chevron needs additional time, will they
7 come back to the Division to request more time?

8 A. That is correct.

9 Q. Now, looking at these amended Exhibits 1, 2 and
10 3, are these the C-102s that reflect the well path and
11 the locations for each of these three wells?

12 A. Yes.

13 Q. And has the Division identified a pool code
14 with respect to these pools in the spacing unit?

15 A. That's correct. That is Purple Sage; Wolfcamp
16 98220.

17 Q. And what is the status of the lands in the area
18 here? Are they federal or state?

19 A. Comprised of all three, federal, state and fee.

20 Q. So you'll be obtaining a com agreement prior to
21 completing the well?

22 A. That's correct.

23 Q. And are there any depth severances within this
24 pool area, within the Purple Sage; Wolfcamp Pool?

25 A. There are not.

1 Q. How about between the Wolfcamp and the
2 overlying Bone Spring? Are there any differences of
3 ownership between those two?

4 A. There are not.

5 Q. Now, the acreage within the Purple Sage;
6 Wolfcamp, is that governed by the statewide rules for
7 well spacing with 330-foot setbacks?

8 A. That's correct.

9 Q. Will each of these three wells comply with
10 the -- will each of the three wells in the completed
11 intervals comply with the setback requirements in the
12 Division rules?

13 A. That's correct.

14 Q. And so just to -- if you would, Mr. Gutierrez,
15 just recap for the Division why you are seeking to drill
16 all three wells at one time. Just give a summary.

17 A. Basically for economic and operational
18 efficiencies. We feel that by drilling them
19 back-to-back, it creates these efficiencies.

20 Q. And were all noticed parties given notice that
21 Chevron intended to drill all three wells at the same
22 time?

23 A. That's correct.

24 Q. And did any object to that proposal?

25 A. None have objected.

1 **Q. Now, have you also looked at the ownership**
2 **interest in the subject lands?**

3 A. I have.

4 **Q. And are those reflected in the exhibit packet,**
5 **Exhibit Number 4?**

6 A. That is correct. So the first -- the first
7 page of Exhibit 4 illustrates the acreage for each of
8 the tracts within the west half of Section 32 and west
9 half of Section 5. And the following page shows the
10 ownership within each one of those tracts, as well as a
11 unit total calculation.

12 **Q. And are the parties that you're seeking to**
13 **force pool here -- working interest parties that you're**
14 **seeking to pool identified in bold?**

15 A. That's correct.

16 **Q. And you're also seeking to pool all uncommitted**
17 **interest owners; is that correct?**

18 A. Correct.

19 **Q. And there are overriding royalty interest**
20 **owners within the spacing unit?**

21 A. There are.

22 **Q. And have you identified all those?**

23 A. We have.

24 **Q. And they've been given notice of the pooling?**

25 A. Yes.

1 Q. And it's your practice in any event to ratify
2 those -- get all those overrides to ratify the com
3 agreement where there is one necessary?

4 A. Correct.

5 Q. Now, are there any unleased mineral interest
6 owners that you need to pool here?

7 A. There are none.

8 Q. So all the mineral interests are leased?

9 A. Correct.

10 Q. Did you provide a well proposal to the working
11 interests that you're seeking to pool?

12 A. Yes.

13 Q. Is that for each of those three wells? Is that
14 correct?

15 A. That is correct.

16 Q. And is that provided in Exhibit Number 5?

17 A. That is correct.

18 Q. When was that well proposal issued?

19 A. They were sent out on October 31st, 2017.

20 Q. And did you include an estimate of costs for
21 each of these three wells?

22 A. We did.

23 Q. And has that been reflected in Exhibit Number
24 6?

25 A. Yes, sir.

1 Q. And this is an AFE for the 1H well that you're
2 proposing; is that right?

3 A. Correct.

4 Q. And there are three sections or pages for this
5 AFE for the 1H, correct?

6 A. Correct.

7 Q. Okay. And are these costs the same for each of
8 the wells, the 1H, 2H and 3H?

9 A. They are.

10 Q. And are these costs that you have identified
11 here on the AFE consistent with what Chevron has
12 incurred for drilling similar wells in the area?

13 A. They are.

14 Q. Now, going back to your well proposals, in
15 addition to the well proposals that you sent out, what
16 additional efforts have you undertaken to reach
17 agreement with the two working interest owners you're
18 seeking to pool today?

19 A. So we recently learned that Marathon acquired
20 Featherstone's interest, but it has not yet been
21 recorded. And we are currently working with Marathon to
22 seek a trade that gets each party out of the way. So
23 that'll be Chevron's working interest and get Marathon a
24 different piece somewhere else.

25 Q. Okay. So those negotiations and discussions

1 are ongoing?

2 A. Ongoing.

3 Q. And should you reach final agreement with those
4 parties after this hearing, will you give notification
5 to the Division that you've reached that agreement?

6 A. We will.

7 Q. Now, in addition to identifying the overrides
8 and the working interest parties that you're seeking to
9 pool, have you also identified each of the operators and
10 lessees of record in the surrounding spacing units
11 around the proposed pooled spacing unit?

12 A. Yes.

13 Q. And you gave notice to those parties?

14 A. We did.

15 Q. And is Exhibit Number 7 a copy of the affidavit
16 prepared by me and my office indicating that we have
17 provided notice to those individuals, both the offsets
18 and the pooled parties, by letter?

19 A. Yes, sir.

20 Q. And the next page of that exhibit is the letter
21 that we sent out to the interest owners that you're
22 seeking to pool?

23 A. (Indicating.)

24 Q. And after that is a tracking page from the
25 United States Postal Service showing each of the parties

1 were actually provided notice for the pooling?

2 A. They are.

3 Q. And the subsequent pages are tracking
4 information for the offset parties and the overrides who
5 were given notice of the hearing; is that correct?

6 A. That's correct.

7 Q. Now, in addition to just a belt-and-suspender
8 approach, in addition to the certified mailing, did we
9 also publish Notice of Publication in the "Carlsbad
10 Current-Argus" giving notice to all the parties by name,
11 including the heirs and devisees?

12 A. Yes.

13 Q. Is that reflected in Exhibit Number 8?

14 A. That is.

15 Q. Mr. Gutierrez, did you prepare yourself or
16 oversee the preparation of Exhibits 1 through 8?

17 A. I did.

18 MR. RANKIN: Mr. Examiner, I would tender
19 the admission -- rather, I move the admission of
20 Exhibits 1 through 8.

21 EXAMINER McMILLAN: Exhibits 1 through 8
22 may now be accepted as part of the record.

23 (Chevron U.S.A., Inc. Exhibit Numbers 1
24 through 8 are offered and admitted into
25 evidence.)

1 EXAMINER McMILLAN: Go ahead with
2 questions, David.

3 EXAMINER BROOKS: I don't think I have any
4 questions.

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 Q. Okay. My question is: Are there any
8 unlocatable interests?

9 A. There are not.

10 Q. The status of all the wells is proposed,
11 correct?

12 A. Correct.

13 Q. And just -- no API -- no APIs have been issued,
14 correct?

15 A. Not yet.

16 Q. And just so you'll know for your testimony,
17 these wells are dedicated to the Purple Sage; Wolfcamp
18 Gas Pool, which has special pool rules which gives you
19 the 330-foot setbacks.

20 MR. RANKIN: Right. You're saying it's not
21 statewide.

22 EXAMINER McMILLAN: No, it's not. They're
23 special pool rules.

24 Q. (BY EXAMINER McMILLAN) Okay. Can you tell me
25 the costs?

1 MR. RANKIN: We didn't recite them in
2 testimony, Mr. Examiner, but they are included in
3 Exhibit Number 6. So there are three components to the
4 AFEs that were provided to the parties, and each of
5 those are reflected on a separate -- separate sheet in
6 Exhibit 6.

7 EXAMINER McMILLAN: Okay. And what are
8 your costs going to be?

9 MR. RANKIN: I'll let Mr. Gutierrez address
10 that, Mr. Examiner.

11 THE WITNESS: Sure. So for completing the
12 well, it is 7.4 million. For drilling the well, it's
13 2.8 million, and for facility costs, it's 3.7 million.

14 Q. (BY EXAMINER McMILLAN) What are your overhead
15 charges?

16 A. We are abiding by the orders, which is 7,000 a
17 month while drilling and 700 a month while producing.

18 Q. Okay.

19 EXAMINER DAWSON: No questions.

20 EXAMINER BROOKS: And I have no questions
21 either.

22 EXAMINER McMILLAN: Sounds good.

23 EXAMINER BROOKS: I'm going to leave at
24 this point. Thank you.

25 EXAMINER McMILLAN: Thanks.

1 Please proceed.

2 MR. RANKIN: Mr. Examiner, no further
3 questions of this witness. I would like to call my
4 second witness.

5 EXAMINER McMILLAN: All right. Please.

6 (Examiner Brooks exits the room, 11:12
7 a.m.)

8 RACHEL STORNILOLO,
9 after having been previously sworn under oath, was
10 questioned and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. RANKIN:

13 **Q. Ms. Storniolo, will you please state your full**
14 **name for the record?**

15 A. My name is Rachel Storniolo.

16 **Q. And by whom are you employed?**

17 A. I'm employed by Chevron.

18 **Q. And have you previously testified before the**
19 **Division?**

20 A. I have not.

21 **Q. Will you please recount for the Examiners your**
22 **educational background and degrees?**

23 A. Okay. In 2010, I graduated from Appalachian
24 State University with a Bachelor of Science in Geology.
25 In 2012, I graduated with a Master's of Science from the

1 University of Tennessee also in geology.

2 Q. Since that time, have you worked in the
3 industry as a petroleum geologist?

4 A. Yes.

5 Q. Will you please recount for the Examiners your
6 background -- relevant work experience as a petroleum
7 geologist?

8 A. I've spent five years with Chevron. I started
9 off at -- in deepwater Gulf of Mexico as an
10 explorationist. I spent a few years after that in
11 development in the capacity for Deepwater. And I've
12 been in the Permian for five months now.

13 Q. And as part of your job at Chevron, are you
14 responsible for evaluating the geology in the area that
15 is subject to this application?

16 A. Yes, I am.

17 Q. And are you familiar with the application that
18 was filed in this case?

19 A. I am.

20 Q. Have you also conducted a study of the geology
21 in the area and come to a decision about the
22 appropriateness of drilling horizontal wells in the
23 area?

24 A. Yes, I have.

25 MR. RANKIN: Mr. Examiner, I'd tender

1 Ms. Storniolo as an expert geologist.

2 EXAMINER McMILLAN: So qualified.

3 Q. (BY MR. RANKIN) Ms. Storniolo, will you
4 identify for the Examiners the target interval for these
5 three wells that Chevron is proposing here?

6 A. I'm going to start with Exhibit 9. On the left
7 here, we have a structural contour map of the Wolfcamp
8 top structure and subsea true vertical depth. And the
9 black rectangular box, that is a proposed unit, and in
10 the orange lines, those are the three proposed Wolfcamp
11 wells. The blue dots scattered across this map are the
12 wells used to define this structural grid. And on the
13 right is a map of the area.

14 Q. Okay. And your next exhibit is just another
15 reflection of the structure you've identified of the
16 Wolfcamp area?

17 A. It is. It doesn't have the wells and the pad
18 on it.

19 Q. Did you also identify representative wells in
20 the area for purposes of constructing a cross section?

21 A. Yes.

22 So in Exhibit 11, we have a map with the
23 structural contour -- or the stratigraphic cross-section
24 line from A to A prime, so from northwest to southeast.
25 And Exhibit 12, you can see starting on the left, in the

1 A, we have the Williams Gas Com and going southeast to
2 the Cochita 5 Federal.

3 East of those logs, we have the normalized
4 gamma ray on the left, the resistivity in the middle and
5 the porosity on the right. This is a stratigraphic
6 cross section that has been flattened on the top of the
7 Wolfcamp, which is the black line. The two blue lines
8 beneath the top Wolfcamp is our Y Sand target. You can
9 see that the Y Sand target is homogeneous in character
10 and is consistent in thickness and present across the
11 cross-section line.

12 Q. Ms. Storniolo, these three wells that are
13 identified, in your opinion, are they representative of
14 the geology in the area?

15 A. They do.

16 Q. And do they reflect adequate logs to identify
17 and determine consistency across the zone?

18 A. They do.

19 Q. And in your analysis, did you identify any
20 pinch-outs, faulting or other geologic impediments and
21 hazards that would prevent development of this area by
22 the horizontal wells you propose?

23 A. I have not.

24 Q. Now, with respect to your analysis, in your
25 opinion, will each of the 40-acre units that comprise

1 the spacing units here contribute more or less equally
2 to the production in the well?

3 A. I believe so, yes.

4 Q. And will they also be productive, in your
5 opinion?

6 A. Yes.

7 Q. In your opinion, can this area be efficiently
8 and effectively drained by the horizontal wells that are
9 being proposed?

10 A. It will.

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

15 A. It will.

16 Q. Were Chevron Exhibits 9 through 12 prepared by
17 you or under your direction and supervision?

18 A. They were prepared by myself. Yes.

19 MR. RANKIN: Mr. Examiner, I'd move the
20 admission of Exhibits 9, 10, 11 and 12 into the record.

21 EXAMINER McMILLAN: Exhibits 9 through 12
22 may now be accepted as part of the record.

23 (Chevron U.S.A., Inc. Exhibit Numbers 9
24 through 12 are offered and admitted into
25 evidence.)

1 MR. RANKIN: With that, I have no further
2 questions and pass the witness for questioning.

3 CROSS-EXAMINATION

4 BY EXAMINER McMILLAN:

5 Q. Do you expect each quarter section to
6 contribute equally to production?

7 A. I do.

8 Q. Do you expect other targets -- okay. This is
9 going back to Exhibit 12. What are other prospective
10 zones in the Wolfcamp?

11 A. You have the Wolfcamp A, B, C and D generally
12 in this section.

13 Q. Are they lower than the Y?

14 A. Yes, sir.

15 Q. So you expect to drill multiple wells in
16 this --

17 A. Not at this time, but potentially. They
18 have -- other companies have drilled those targets in
19 the general vicinity.

20 Q. Thank you.

21 EXAMINER McMILLAN: Go ahead, Scott.

22 CROSS-EXAMINATION

23 BY EXAMINER DAWSON:

24 Q. You just said there are other companies in the
25 general vicinity that are drilling the same formation

1 **you're proposing?**

2 A. (Indicating.)

3 **Q. Are those wells economic?**

4 A. Yes, they are.

5 **Q. Were the owners -- fee owners, I guess that**
6 **would be the Harroun lease. Are they required to sign a**
7 **com agreement also?**

8 MR. RANKIN: Are you asking about royalty
9 owners, the lessors?

10 EXAMINER DAWSON: The private lease -- the
11 private lease owner.

12 MR. RANKIN: So the lessors of that?

13 EXAMINER DAWSON: Yes. Yes.

14 MR. RANKIN: I believe that they would be
15 the working interest owners that would either -- by
16 pooling order or ratification subject to the com
17 agreement. I think we need to confirm because they're
18 either being pooled or have the authority to pool under
19 the leasing terms.

20 EXAMINER DAWSON: We can pull him back and
21 I can ask him questions.

22 EXAMINER McMILLAN: Do you have any more
23 questions for her?

24 EXAMINER DAWSON: No. I'm done.

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IRVIN GUTIERREZ,

after having been previously sworn under oath, was re-called and questioned and testified as follows:

CROSS-EXAMINATION

BY EXAMINER DAWSON:

Q. Mr. Gutierrez --

A. Yes, sir.

Q. -- the com agreements that are going to be prepared and signed, the Harroun lease, the private fee owners, do they need to sign that also?

A. They do not.

Q. They do not.

A. My current communication with the contact at the BLM has only specified to sign the overriding royalty interest owners and the working interest owners.

Q. Okay. All right. That's all the questions I have. Thank you very much.

EXAMINER McMILLAN: Okay.

MR. RANKIN: With that, Mr. Examiners I ask that Case Number 16112 be taken under advisement.

EXAMINER McMILLAN: Okay. Case Number 16112 shall be taken under advisement.

(Case Number 16112 concludes, 11:20 a.m.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
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 DATED THIS 9th day of June 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25