

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. 16405  
FOR A NONSTANDARD SPACING AND  
PRORATION UNIT AND COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 4, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
PHILLIP GOETZE, TECHNICAL EXAMINER  
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 4, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102  
(505) 843-9241

1 APPEARANCES

2 FOR APPLICANT CHEVRON USA, INC.:

3 MICHAEL H. FELDEWERT, ESQ.  
 4 HOLLAND & HART, LLP  
 5 110 North Guadalupe, Suite 1  
 6 Santa Fe, New Mexico 87501  
 7 (505) 988-4421  
 8 mfeldewert@hollandhart.com

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1

(8:43 a.m.)

2

EXAMINER McMILLAN: So the next case we're

3

going to hear is Case 16436.

4

MR. FELDEWERT: I think you mean 16405.

5

EXAMINER McMILLAN: Okay.

6

(Laughter.)

7

EXAMINER McMILLAN: Well, I might change my

8

mind.

9

Okay. Application of Chevron USA,

10

Incorporated for a nonstandard spacing and proration

11

unit and compulsory pooling, Eddy County, New Mexico.

12

Call for appearances.

13

MR. FELDEWERT: May it please the examiner,

14

Michael Feldewert, with the Santa Fe office of Holland &

15

Hart, appearing on behalf of the Applicant. I have two

16

witnesses here today.

17

EXAMINER McMILLAN: Any other appearances?

18

Please proceed.

19

If the witnesses would please stand up and

20

be sworn in at this time. Thank you.

21

(Mr. Gutierrez and Ms. Storniolo sworn.)

22

MR. FELDEWERT: Mr. Examiner, I do have two

23

witnesses here today. Before we get to the witnesses,

24

because this case was filed after the enactment of the

25

new horizontal well rules and those rules remain in

1 effect, we can dismiss the portion of the applications  
2 asking for a nonstandard spacing and proration unit,  
3 since this will now be a standard horizontal well  
4 spacing unit.

5 EXAMINER McMILLAN: It was filed after June  
6 26th --

7 MR. FELDEWERT: Yes, sir.

8 EXAMINER McMILLAN: -- correct?

9 Please proceed.

10 IRVIN GUTIERREZ

11 after having been previously sworn under oath, was  
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. FELDEWERT:

15 Q. Would you please state your name, identify by  
16 whom you're employed and in what capacity?

17 A. Yes. My name is Irvin Gutierrez. I am  
18 employed by Chevron as a land representative.

19 Q. And how long have you been a land  
20 representative with Chevron?

21 A. I have been with Chevron for close to nine  
22 years now, with the last year or so in the Permian.

23 Q. Mr. Gutierrez, you have previously testified  
24 before this Division as an expert in petroleum land  
25 matters, correct?

1           A.    I have.

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

4           A.    I am.

5           Q.    And are you familiar with the status of the  
6   lands in the subject area?

7           A.    I am.

8                   MR. FELDEWERT:  Mr. Examiner, I would  
9   retender Mr. Gutierrez as an expert witness in petroleum  
10   land matters.

11                   EXAMINER McMILLAN:  So qualified.

12           Q.    (BY MR. FELDEWERT) Would you turn to what's  
13   been marked as Chevron Exhibit Number 1?  First identify  
14   it and explain what the company seeks in this  
15   application?

16           A.    Sure.  Exhibit 1 depicts the 640-acre spacing  
17   unit that we're looking to get approved.  The pad site  
18   itself is on the north half of Section 15, Township 23  
19   South, Range 28 East, but the actual spacing unit will  
20   be the east half of Section 10 and the east half of  
21   Section 3, both Township 23 South, Range 28 East.

22                   We are seeking to compulsory pool any  
23   uncommitted interest owners in the Wolfcamp, in this  
24   640-acre spacing unit for two-mile laterals, three of  
25   them, the 1H, the 2H and the 3H.

1           Q.    If I then turn to what's been marked as Chevron  
2   Exhibit Number 2, are these the unsigned C-102s that  
3   apply to the three wells?

4           A.    That is correct.

5           Q.    The 1H, the 2H and the 3H?

6           A.    Correct.

7           Q.    Okay. And are you -- this reflects that these  
8   wells are going to be located in the Purple Sage;  
9   Wolfcamp Gas Pool?

10          A.    That's right.

11          Q.    Mr. Gutierrez, you're familiar with the special  
12   rules that have been enacted for that particular pool?

13          A.    I am.

14          Q.    Will all three of these wells comply with the  
15   setback requirements under those special rules?

16          A.    They will.

17          Q.    What is the status of the lands?

18          A.    We are looking at federal and private lands.

19          Q.    Are there any depth severances?

20          A.    There are not.

21          Q.    Okay. Now, why does the company seek to  
22   dedicate the spacing unit to three initial wells?

23          A.    So the main reason is economic proficiencies  
24   there. We drill each of the three wells back-to-back,  
25   and so there are some cost savings by doing so.

1           Q.    Under your drilling plans, will Chevron be able  
2 to drill and complete a well within 120 days of the  
3 commencement of drilling?

4           A.    We will not.

5           Q.    What period of time do you request that the  
6 Division provide for the completion of the first well  
7 following the commencement of drilling?

8           A.    We are looking to receive 365 days.

9           Q.    So one year?

10          A.    One year.

11          Q.    Why do you seek one year? What's the reason  
12 for that request?

13          A.    So right now, as I mentioned earlier, we do  
14 batch drilling. We'll drill the surface for each one,  
15 go back and drill the intermediate and then the  
16 production. And then after that, you get your  
17 production crew, your frac crew. And so between that  
18 time period, we're looking close to a year.

19          Q.    Have you had experience recently in this area  
20 that forms the basis for your request?

21          A.    Yes. Our first development unit in this area  
22 has taken around six months to drill, and this is  
23 without yet completing the wells.

24          Q.    All right. So one year, you believe, will give  
25 you a sufficient period of time based on the experience

1     you've had in the area?

2           A.     That's correct.

3           Q.     If I then turn to what's been marked as Chevron  
4     Exhibit Number 3, does this identify on the first page  
5     for the Examiner the various tracts that are involved in  
6     the subject acreage?

7           A.     It does.

8           Q.     Okay. They're color-coded?

9           A.     They are.

10          Q.     One thing that sticks out to me is there is  
11     kind of a diagonal line in the southeast of the  
12     southeast of Section 10. Do you see that?

13          A.     I do. That's Tract 6.

14          Q.     So it has a blue color.

15          A.     That is a blue color.

16          Q.     Why does it look like a diagonal line?

17          A.     That's a railroad that's crossing right there.  
18     It basically leads right into the city of Loving.

19                   EXAMINER BROOKS: The reason it looks like  
20     a diagonal line is because it is a diagonal line.

21                   THE WITNESS: That's right. That's right.

22                   (Laughter.)

23          Q.     (BY MR. FELDEWERT) So that Tract 6 is actually  
24     a railroad right-of-way?

25          A.     It is.



1           Q.    All right.  If I then look at the second page  
2 of this exhibit, does this provide the working  
3 interest -- a list of the working interest owners in  
4 this acreage?

5           A.    It is.  It does.

6           Q.    Does this provide, then, the breakdown of the  
7 working interests in the proposed horizontal spacing  
8 unit?

9           A.    That's correct.

10          Q.    And then if I look at the bottom, does this  
11 identify the overriding royalty interest owners that are  
12 involved in this acreage?

13          A.    It does.

14          Q.    Are there two entities that hold both working  
15 interests and overrides?

16          A.    Yes.  Dark Energy and GNX Energies both own a  
17 working interest and an override.

18          Q.    Are there any unleased mineral owners?

19          A.    No unleased mineral owners.

20          Q.    So what's the circumstance with respect to the  
21 railroad right-of-way?

22          A.    So the railroad right-of-way was -- if I  
23 recall, it was -- the royalty was transferred to Santa  
24 Fe Railroad Company, and then the royalty was then  
25 assigned to Devon, who then leased to Chevron.

1           Q.    So Chevron holds the interest?

2           A.    That's right.

3           Q.    Okay.  This exhibit also identifies the status  
4 of your discussions with the working interests that you  
5 seek to pool?

6           A.    That's right.  Over on the right-hand column,  
7 under the Comment section, I kind of labeled where we  
8 are as far as negotiations are concerned.

9           Q.    Okay.  And there is only one party that you've  
10 been unable to locate?

11          A.    That's right, Conrad E. Coffield.

12          Q.    Okay.  We'll get to that in a minute.

13                    You list the overriding royalty interest  
14 owners here.  Are these all of the overriding royalty  
15 interest owners in this acreage?

16          A.    They are.  Out of an abundance of caution, we  
17 decided to list all of the overriding royalty interest  
18 owners.

19          Q.    All right.  Let's turn to what's been marked as  
20 Chevron Exhibit 4.  Is this a sample of the  
21 well-proposal letters for all three wells that were sent  
22 to each of these working interest owners?

23          A.    It is.

24          Q.    And this reflects, does it not, your drilling  
25 plan to batch drill all three of these wells?

1           A.     That's correct.

2           Q.     Did each of these well-proposal letters contain  
3     an AFE for each individual letter?

4           A.     They did.

5           Q.     And is that attached to your -- as the latter  
6     part of this Exhibit 4?

7           A.     They are, all three wells with drilling,  
8     completion and facility costs.

9           Q.     Okay. Now, to make it easy, if I go to the  
10    last page of this exhibit, this would be the page  
11    relating to the facility costs?

12          A.     That's correct.

13          Q.     I see a number here of 2.1 million?

14          A.     Yes, sir.

15          Q.     Is that the -- is that the total cost, or is  
16    this an allocation of the total cost of each of these  
17    wells?

18          A.     That is an allocation of the total cost,  
19    representing one-third of the total cost.

20          Q.     Okay. And then each well has its own drilling  
21    and completion costs?

22          A.     That's correct.

23          Q.     Are the costs that are reflected on these AFEs  
24    consistent with what the company has incurred for  
25    drilling similar horizontal wells in this area?

1           A.     They are similar to what we are forecasting.  
2     Again, if we go back to the example I gave with the  
3     first unit that we drilled in this area, we ran into  
4     some issues there that drove the costs up a bit, but  
5     this is what we're currently forecasting for future pads  
6     in the area.

7           Q.     Have you also estimated the overhead and  
8     administrative costs while drilling and while producing  
9     if you are successful?

10          A.     We have.

11          Q.     What are those costs?

12          A.     7,000 a month while drilling and 700 a month  
13     while producing.

14          Q.     And are these costs consistent with what  
15     Chevron and other operators charge in this area for  
16     similar wells?

17          A.     Yes.

18          Q.     And are these the rates you request be  
19     incorporated into the order?

20          A.     We do.

21          Q.     If I turn to what's been marked as Chevron  
22     Exhibit 5, is this an affidavit prepared by my office  
23     with attached letters providing notice of this hearing  
24     to both the working interest owners and the overriding  
25     royalty interest owners?

1           A.    It is.

2 Q. And you mentioned that there was only one  
3 interest owner that you were unable to locate; is that  
4 right?

5           A.     That 's correct.

6 Q. If I turn to what's been marked as Chevron  
7 Exhibit Number 6, is this a notice of -- or an Affidavit  
8 of Publication directed by name to each of the parties  
9 that you seek to pool?

10           A.     That's right, second page.

11 Q. Thank you.

12                   If you go to the second page, do we see the  
13   name of the individual you were unable to locate?

14 A. Yes, right about halfway down.

15 Q. Conrad E. Coffield?

16 A. Coffield, yes, sir.

17 Q. Were Exhibits 1 through 4 prepared by you or  
18 compiled under your direction or supervision?

19           A.     They were.

20 MR. FELDEWERT: Mr. Examiner, I'd move the  
21 admission of Chevron Exhibits 1 through 6, which include  
22 my notice affidavit and the Affidavit of Publication.

23 EXAMINER McMILLAN: Okay. Exhibits 1  
24 through 6 may now be accepted as part of the record.

25 (Chevron USA, Inc. Exhibit Numbers 1

1                   through 6 are offered and admitted into  
2                   evidence.)

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

5                   CROSS-EXAMINATION

6                   BY EXAMINER McMILLAN:

7                   Q.    Okay. So are your building blocks going to be  
8                   quarter sections, or are you going to use the three --  
9                   what will be your building blocks?

10                  A.    So it'll be the east half 320, plus the east half  
11                  320 of Sections 10 and 3, 640 total.

12                  Q.    So if you look at the horizontal well rules,  
13                  you can use quarter section, or you can use spacing-unit  
14                  size. Are you going to use the quarter section or the  
15                  entire?

16                  A.    The entire.

17                  MR. FELDEWERT: Because we're in the Purple  
18                  Sage Pool.

19                  EXAMINER McMILLAN: You see what I'm  
20                  saying?

21                  MR. FELDEWERT: Uh-huh. We're in the  
22                  Purple Sage Pool. Yeah.

23                  Q.    (BY EXAMINER McMILLAN) And none of these wells  
24                  have APIs, right?

25                  A.    No, not currently.

1 EXAMINER McMILLAN: Go ahead.

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

4 MR. FELDEWERT: Call our next witness.

5 EXAMINER McMILLAN: Please proceed.  
6 Thank you.

7 THE WITNESS: Thank you.

8 EXAMINER BROOKS: You made a very thorough  
9 presentation.

10 THE WITNESS: Thank you. I appreciate  
11 that.

12 RACHEL STORNILOLO,  
13 after having been previously sworn under oath, was  
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. FELDEWERT:

17 Q. Would you please state your name, identify by  
18 whom you're employed and in what capacity?

19 A. My name is Rachel Storniololo. I am a geologist,  
20 and I work for Chevron.

21 Q. Mr. Storniololo -- or, Ms. Storniololo, how long  
22 have you been with Chevron?

23 A. I've been with Chevron for six years.

24 Q. And have your responsibilities included the  
25 Permian Basin?

1           A.     Yes.

2           Q.     And have you previously testified before this  
3     Division as an expert in petroleum geology?

4           A.     I have.

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

7           A.     Yes, I am.

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

10          A.     I have.

11                   MR. FELDEWERT: I would retender  
12     Ms. Storniolo as an expert witness in petroleum geology.

13                   EXAMINER McMILLAN: So qualified.

14          Q.     (BY MR. FELDEWERT) What is the target for the  
15     three proposed wells for this horizontal spacing unit?

16          A.     We are targeting the Y sand, which is located  
17     in the top of the Wolfcamp A Formation.

18          Q.     Have you created a structure map for the  
19     Wolfcamp A?

20          A.     Yes, I have.

21          Q.     If I turn to what's been marked as Chevron  
22     Exhibit Number 7, is this a structure map that you put  
23     together?

24          A.     Yes. It's the structure map of the top of the  
25     Wolfcamp A Formation. The purple dots are structural



1 control points that were used to create this spread.

2 Q. And for Mr. McMillan, did you provide any data  
3 for those structural control points?

4 A. I did. I posted the true vertical depth subsea  
5 at each of the control points.

6 Q. And have you identified for the examiner on  
7 this exhibit where the proposed horizontal spacing unit  
8 is?

9 A. It is. It's in Sections 10 and 3, and it's  
10 outlined on the east half -- or outlined by a  
11 black-dotted box.

12 Q. What do you observe about the structure in this  
13 area?

14 A. The structure is gently dipping to the east.

15 Q. Do you see any faulting or pinch-outs or other  
16 geologic impediments to developing this area with  
17 horizontal wells?

18 A. No, I do not.

19 Q. Now, have you created a cross section for this  
20 area?

21 A. Yes, I have.

22 Q. And are the wells that were utilized in the  
23 cross section reflected on this Exhibit Number 7?

24 A. Yes, they are. They are in the -- they are  
25 outlined by a blue line going from north to south in the

1 middle of the map.

2 Q. Okay. Now, with that in mind, if I turn to  
3 what's been marked as Chevron Exhibit Number 8, is this  
4 the same map with more information about the wells that  
5 you utilized for your cross section?

6 A. Yes, sir, it is.

7 Q. It provides the API numbers?

8 A. It's does. It's a cross-section line and the  
9 wells that are used in our stratigraphic cross section  
10 in the next exhibit and the four wells that are used  
11 from north to south and their associated APIs.

12 Q. Why did you select these four wells?

13 A. These four wells penetrate the top of the  
14 Wolfcamp but also go deeper so you can get an idea of  
15 the thickness of the formation that we're targeting.  
16 Also, these wells have gamma ray; some of them have deep  
17 resistivity, as well as porosity.

18 Q. In your opinion, are these wells representative  
19 of the area?

20 A. I do think so.

21 Q. If I then turn to what's been marked as Chevron  
22 Exhibit Number 9, is this the cross section --  
23 north-to-south cross section that's reflected on Exhibit  
24 Number 8?

25 A. Yes, it is. So north on the left and south on

1 the right, the four wells that are used for this cross  
2 section as identified in the previous map.

3 Q. Why don't you walk us through this exhibit?

4 A. Okay. So the cross section is flattened on the  
5 base of the Y sand target interval. The Y sand target  
6 interval's outlined in these blue lines in the center of  
7 the cross section. Above it is the top of the Wolfcamp  
8 or the Wolfcamp A. And you can see the thickness is  
9 rather continuous across these few sections, and I have  
10 the isopach thickness posted on the bottom of each of  
11 the well tracts.

12 Q. And your target zone, again, is reflected here  
13 in blue as the Y sand; is that right?

14 A. Yes.

15 Q. In your opinion, is this an area that can be  
16 efficiently and economically developed by horizontal  
17 wells?

18 A. Yes.

19 Q. And in your opinion, will each tract in each  
20 proposed horizontal spacing unit contribute more or less  
21 equally to the production from the wellbore?

22 A. I do believe so.

23 Q. And in your opinion, is the granting of this  
24 application in the best interest of conservation, the  
25 prevention of waste and the protection of correlative

1     **rights?**

2           A.     Yes.

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

5           A.     They were.

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

9                     EXAMINER McMILLAN:   Exhibits 7 through 9  
10    may now be accepted as part of the record.

11                    (Chevron USA, Inc. Exhibit Numbers 7  
12                    through 9 are offered and admitted into  
13                    evidence.)

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

16                    EXAMINER McMILLAN:   And the attorney also  
17    left off the comment on Exhibit 7.

18                    Your color scale fits the data.   It's not  
19    monotone.

20                    You missed that.

21                                   CROSS-EXAMINATION

22    BY EXAMINER McMILLAN:

23           **Q.     Are there any other Wolfcamp objectives in here**  
24     **at this time?**

25           A.     How do you mean?   Like deeper in the Wolfcamp

1 for like the Wolfcamp C or D?

2 Q. Yes.

3 A. Yeah, they're potential. They're not  
4 prioritized in the eyes of our asset team currently.

5 Q. So why did you really select this interval over  
6 the other intervals?

7 A. I can get into that, but it's almost a  
8 conventional quality sand. It's relatively consistent.  
9 We can use rotary steerable. It's a highly objective  
10 formation that we're already started developing a bit  
11 southeast of here. This is the most prospective  
12 interval we see in the Wolfcamp currently.

13 EXAMINER BROOKS: No questions.

14 EXAMINER McMILLAN: My question is: If you  
15 want your extension, will you do what you've done in the  
16 past? After you complete -- after you have completed a  
17 well in both sections, get a statement from the engineer  
18 stating that each of the quarter sections or each of the  
19 sections is capable of producing?

20 MR. FELDEWERT: We can certainly do that.

21 EXAMINER McMILLAN: I think that's a fair  
22 way to do it.

23 MR. FELDEWERT: Certainly.

24 EXAMINER McMILLAN: Okay.

25 EXAMINER GOETZE: I only have one question.

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. What do you think the production of this will  
4 be primarily? This will be an oil well?

5 A. Yes.

6 Q. A little bit of gas?

7 A. Well, i mean, it's a gas well, but it'll  
8 produce some --

9 Q. So we're talking retrograde gas, or are we  
10 talking straight oil?

11 A. So we have not -- I personally do not know. We  
12 haven't completed and producing on adjacent pad, so I  
13 don't have that information.

14 Q. Fair enough. Thank you. That's all I have.

15 MR. FELDEWERT: Mr. Examiner, we'd ask that  
16 this case be taken under advisement.

17 EXAMINER McMILLAN: Okay. Case Number  
18 16405 shall be taken under advisement.

19 Thank you.

20 (Case Number 16405 concludes, 9:03 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 DATED THIS 25th day of October 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

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