

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. FOR CASE NO. 16436
APPROVAL OF THE JAVELINA UNIT AND
SURFACE COMMINGLING, 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.

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APPEARANCES

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1 (10:20 a.m.)

2 EXAMINER McMILLAN: Call Case Number 16436,
3 application of Chevron USA, Incorporated for approval of
4 the Javelina Unit and surface commingling, Eddy County,
5 New Mexico.

6 Call for appearances.

7 MS. BRADFUTE: Mr. Examiner, Jennifer
8 Bradfute on behalf of the Applicant.

9 EXAMINER McMILLAN: Any other appearances?

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing Douglas McLeod and Petrogulf
12 Corporation and Titus Oil & Gas. I have one witness who
13 may make a statement or testify.

14 EXAMINER McMILLAN: Okay.

15 MS. BRADFUTE: And, Mr. Examiner, I have
16 two witnesses here today.

17 But, Jim, was your witness listed on the
18 pre-hearing statement?

19 MR. BRUCE: Yeah.

20 EXAMINER McMILLAN: If all the witnesses
21 would please stand up and be sworn in at this time.

22 (Mr. Cooper, Mr. Verner and Mr. Plazak
23 sworn.)

24 MS. BRADFUTE: I'd like to call my first
25 witness.

1 EXAMINER McMILLAN: Please proceed.

2 CHRISTOPHER COOPER,

3 after having been first duly sworn under oath, was

4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MS. BRADFUTE:

7 Q. Good morning.

8 A. Good morning.

9 Q. Could you please state your name for the
10 record?

11 A. Christopher Cooper.

12 Q. And, Mr. Cooper, who do you work for?

13 A. Chevron USA, Inc.

14 Q. And what is your position at Chevron?

15 A. I'm a landman.

16 Q. Okay. And what are your responsibilities as a
17 landman?

18 A. I am over Eddy County, New Mexico.

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

21 A. I have.

22 Q. And were your credentials accepted and made
23 part of the record?

24 A. Yes, they were.

25 Q. And are you familiar with the application

1 that's been filed by Chevron in Case 16436?

2 A. Yes, I am.

3 Q. And are you familiar with the status of the
4 lands which are included within the unit area which is
5 the subject of this application?

6 A. Yes.

7 MS. BRADFUTE: I'd like to tender
8 Mr. Cooper as an expert witness in land matters.

9 MR. BRUCE: No objection.

10 EXAMINER McMILLAN: So qualified.

11 Q. (BY MS. BRADFUTE) Mr. Cooper, could you please
12 turn to what's been marked as Exhibit Number 1 in the
13 packet in front of you? And this exhibit is a copy of
14 Chevron's application in this matter, correct?

15 A. Correct.

16 Q. Could you please explain what Chevron is
17 seeking in this application?

18 A. Chevron is seeking an order approving the
19 Javelina Unit and approving surface commingling
20 production from the Bone Spring and Wolfcamp pools as to
21 the unit area.

22 Q. Okay. And approximately how large will the
23 unit be?

24 A. Approximately 5,769 acres, more or less.

25 Q. Okay. And --

1 A. Excuse me. It's 51 -- 5,139. Excuse me.

2 Q. Thank you.

3 Could you please turn to what's been marked
4 as Exhibit 2? Does Exhibit 2 contain a copy of the unit
5 agreement that's been proposed for the Javelina Unit?

6 A. Yes, it does.

7 Q. And can you please explain what types of lands
8 are going to be included in this unit?

9 A. The lands included in this unit will include
10 state and federal acreage.

11 Q. And does this unit agreement follow the BLM's
12 schedule form?

13 A. Yes, it does.

14 Q. And have you had an opportunity to meet with
15 the Bureau of Land Management to discuss the unit?

16 A. Yes, we have.

17 Q. Okay. Can you briefly discuss those meetings
18 for the hearing examiners?

19 A. Yes. We met initially with the BLM and the SLO
20 to discuss the general proposed unit, and then we later
21 met with both to discuss initial approval of the unit.
22 And we have received initial approval letters from both
23 the BLM and SLO.

24 Q. Okay. Great.

25 And if you could please turn to Exhibit 3

1 in the packet in front of you, does Exhibit 3 contain
2 the preliminary approval letter from the Bureau of Land
3 Management?

4 A. Yes, it does.

5 Q. And just as a point of correction here, it says
6 that the unit is going to be 5,119.76 acres, correct?

7 A. Correct.

8 Q. Okay. Great.

9 And if you could please turn to Exhibit 4,
10 does Exhibit 4 contain the preliminary approval letter
11 obtained from the New Mexico State Land Office?

12 A. Yes, it does.

13 Q. Is Chevron seeking approval of this unit in
14 order to facilitate horizontal development?

15 A. Yes, we are.

16 Q. Okay. And could you explain what the
17 concept -- the development concept is to the hearing
18 examiners for the development area?

19 A. Chevron will develop by two-mile laterals with
20 six wells per section as to both the Bone Spring and the
21 Wolfcamp Formations.

22 Q. So the targeted formations that Chevron is
23 seeking to develop in the unit are going to be the Bone
24 Spring and then the Wolfcamp?

25 A. Correct.

1 Q. I want to turn back to Exhibit 2, which is the
2 unit agreement, and I want to look at page 4 of the unit
3 agreement.

4 A. Okay.

5 Q. What depths are being unitized in the
6 agreement?

7 A. The depths that will be unitized are all
8 formations from the "stratigraphic equivalent of the top
9 of the Bone Spring Formation defined as the
10 stratigraphic equivalent of the top of the Bone Spring
11 Lime, as seen at 8,400 feet beneath the surface in that
12 certain Schlumberger Gamma Ray and Dual Laterolog/MSFL,
13 dated November 13, 1980, in the Sotol Federal 1 (API
14 30-015-23459) located in Section 12, Township 24 South,
15 Range 31 East, Eddy County, New Mexico, to the center of
16 the earth."

17 Q. And does the unit agreement treat that area as
18 a single participating area?

19 A. It does not. The unit agreement requires that
20 the different formations receive their own participating
21 area. So in this case, the Bone Spring and the Wolfcamp
22 Formations will receive their own participating areas.

23 Q. Okay. So there will be different participating
24 areas within the Bone Spring and different participating
25 areas in the Wolfcamp Formations?

1 A. Correct.

2 Q. And under the unit agreement, is it -- that you
3 might set up several participating areas in those
4 formations?

5 A. Yes, it is.

6 Q. Okay. And does the unit agreement contain an
7 Exhibit A which provides an outline of the proposed unit
8 area?

9 A. Yes, it does.

10 Q. And, actually, if you turn to Exhibit 5 in the
11 packet in front of you, is there a slide which
12 duplicates the Exhibit A to the unit agreement?

13 A. Yes. That is marked as Exhibit 6 -- excuse
14 me -- Exhibit 5.

15 Q. Exhibit 5. Thank you.

16 If you could look at Exhibit 5 and walk
17 through this diagram for the hearing examiners.

18 A. Yes. This exhibit shows an outline of the
19 proposed unit. And the sections that are hashed are
20 state sections, and the sections that are unhashed are
21 federal sections. And on the left-hand side, you'll see
22 that the federal lands contain approximately 3,839 acres
23 or 75 percent of the total lands, and the state acreage
24 totals approximately 1,279 acres or 25 percent of the
25 total acreage.

1 Q. And is there also an Exhibit B to the unit
2 agreement which shows an ownership breakdown by tract
3 and footage?

4 A. Yes, there is.

5 Q. Okay. And if you turn to Exhibit 6 within
6 this, could you please explain what Exhibit 6 shows?

7 A. Exhibit 6 shows on the left-hand side the
8 recapitulation of each tract in the unit as shown in
9 Exhibit 5. And it shows the number of acres that each
10 tract has and the percentage that tract is as to the
11 entire unit on the right-hand column. And then on the
12 right-hand side of the page is a breakdown of the
13 working interest owners of the proposed Javelina Unit.

14 Q. And are there any uncommitted working interest
15 owners for this particular unit?

16 A. There are.

17 Q. Could you please identify who those are?

18 A. The uncommitted owners are COG Operating,
19 Concho Oil & Gas, Devon Energy, Titus Oil & Gas,
20 Mabee-Flynt Lease Trust, Melissa Catherine Dougherty,
21 Kevin Francis Dougherty.

22 Q. And are there any uncommitted lessees of
23 record?

24 A. The only one is COG Operating.

25 Q. Okay. And this is a voluntary unit, correct?

1 A. It is.

2 Q. Are there any overriding royalty interests in
3 the leases that are being unitized?

4 A. Yes, there are.

5 Q. And did Chevron provide notice of this
6 application to those overriding royalty interest owners?

7 A. Yes, we did.

8 Q. And with regard to the instruments which create
9 those overrides, have you looked at those documents and
10 determined whether they contain a pooling or unitization
11 provision?

12 A. Yes. And they do allow for pooling or
13 unitization.

14 Q. And has Chevron prepared a plan of development
15 for the unit?

16 A. We have.

17 Q. And if you could please turn to Exhibit 7, does
18 Exhibit 7 contain a diagram of that plan of development?

19 A. Yes, it does.

20 On the left-hand side, you'll see, as I
21 said earlier, the general plan of development, which is
22 two-mile laterals with six wells per section developed
23 on pad drilling. And on the right-hand side, this is
24 the well commitment that Chevron included in the unit
25 agreement with the BLM as part of our negotiations of

1 this unit. Wherein, Chevron committed to drill at least
2 eight wells over the five-year period of the unit
3 agreement to be drilled at least one well per Bone
4 Spring and Wolfcamp Formation per section in the unit.
5 So between those eight wells, Chevron will have drilled
6 a two-mile lateral as to every section in both the Bone
7 Spring and Wolfcamp Formations.

8 **Q. And was this plan of development discussed with**
9 **the Bureau of Land Management?**

10 A. Yes. And it was approved by them.

11 **Q. Okay. And was this plan of development**
12 **discussed with the New Mexico State Land Office?**

13 A. Yes. And it was approved by them as well.

14 **Q. How will production be allocated in the unit?**

15 A. Production will be allocated via the working
16 interests, as shown in Exhibit 5.

17 **Q. Okay. And there is an exhibit to the unit**
18 **agreement which also gives an allocation measurement as**
19 **well?**

20 A. Correct.

21 **Q. Chevron is also seeking approval to commingle**
22 **production through surface facilities in the unit,**
23 **correct?**

24 A. Correct.

25 **Q. And it's seeking that approval because**

1 production is going to be obtained from both the Bone
2 Spring and the Wolfcamp Formations?

3 A. Correct.

4 Q. Is the ownership underlying the unit identical
5 within those two formations?

6 A. Yes, it is identical.

7 Q. And there are no depth severances which
8 underlie the unit area?

9 A. Correct. There are no depth severances.

10 Q. And Chevron's proposing to commingle the
11 production from those formations?

12 A. Yes.

13 Q. What is the pool code for the Bone Spring
14 Formation within the unit?

15 A. The pool code for the Bone Spring is 13367.

16 Q. Okay. And the Wolfcamp pool underlying the
17 formation is the Purple Sage; Wolfcamp Gas Pool,
18 correct?

19 A. Correct.

20 Q. And how will production be measured within the
21 unit?

22 A. Production will be measured as shown in the
23 diagram in Exhibit 8. It will be measured after the
24 test separators for gas, oil and water. Oil will
25 intimately be measured at a LACT, and gas will be

1 measured at a single take-away point before the
2 compressor stations.

3 Q. And why is Chevron seeking to commingle
4 production from the unit?

5 A. This will allow Chevron to use the least amount
6 of surface possible. It will decrease the total amount
7 of facilities, therefore decreasing total cost of the
8 unit, and it will also ease the administrative burden of
9 administering the unit.

10 Q. If you could please turn to Exhibit 9, does
11 Exhibit 9 contain an affidavit that's been prepared by
12 counsel confirming that notice was provided to affected
13 parties of this application?

14 A. Yes.

15 Q. And Chevron has provided notice to working
16 interest owners within the unit, correct?

17 A. Correct.

18 Q. It's provided notice to the lessees of record
19 within the unit, correct?

20 A. Correct.

21 Q. And it's provided notice to the overriding
22 royalty interest owners within the unit?

23 A. Correct.

24 Q. As well as offset operators?

25 A. Correct.

1 Q. And there is proof of notice attached to this
2 affidavit, correct?

3 A. Yes.

4 Q. There were some mailings that were not able to
5 be delivered. Is that your understanding?

6 A. Yes.

7 Q. And has Chevron also published notice in the
8 "Carlsbad Current-Argus" listing all of the parties who
9 were given notice?

10 A. Yes.

11 Q. And could you please explain what efforts you
12 undertook to locate addresses for the parties who were
13 notified?

14 A. Yes. We searched all of the public records in
15 Eddy County. And for those that we were unable to find,
16 we made phone calls and checked Internet records,
17 discussed with other working interests or override
18 owners to try to get those current addresses.

19 Q. And in your opinion, did you exercise
20 reasonable diligence to locate that address information?

21 A. Yes.

22 Q. Were Exhibits 1 through 9 prepared by you or
23 compiled under your direction or supervision or from
24 company business records?

25 A. Yes, they were.

1 Q. And does Chevron have any timing restrictions
2 which could impact development within this unit?

3 A. Yes, we do. The BLM has indicated that we need
4 to submit for final approval of this unit by the time
5 our initial wells are completed in the Wolfcamp
6 Formation, so they would like to see final approval
7 submitted to them by the end of the year.

8 Q. And just for clarification, Chevron has started
9 drilling some of the initial wells within the area; is
10 that correct?

11 A. Correct. We spud the initial wells in
12 September.

13 Q. Okay. And so Chevron is asking for an
14 expedited order of this application so that it can get
15 everything the BLM has requested before the end of the
16 year?

17 A. Yes, we are.

18 MS. BRADFUTE: I would like to tender
19 Exhibits 1 through 9 into the record.

20 MR. BRUCE: No objection.

21 EXAMINER McMILLAN: Exhibits 1 through 9
22 may now be accepted as part of the record.

23 (Chevron USA, Inc. Exhibit Numbers 1
24 through 9 are offered and admitted into
25 evidence.)

1 Q. (BY MS. BRADFUTE) And, Mr. Cooper, in your
2 opinion, is the granting of Chevron's application in the
3 interest of the prevention of waste and the protection
4 of correlative rights?

5 A. Yes, it is.

6 MS. BRADFUTE: That concludes my questions.

7 CROSS-EXAMINATION

8 BY MR. BRUCE:

9 Q. A few questions, Mr. Cooper. First looking at
10 Titus Oil & Gas, am I correct that they own a working
11 interest in Section 2?

12 A. Yes, they do.

13 Q. And you've been in touch with them, and they've
14 been in touch with you regarding the unit?

15 A. Correct.

16 Q. And they don't oppose the unitization at all;
17 is that correct?

18 A. Correct.

19 Q. What is your understanding of their concern
20 about their interests?

21 A. As I understand it, Titus was assigned multiple
22 interests in this Section 2, and there is a question
23 over some contractual interest they have from an old JOA
24 wherein at a certain point in time their override
25 converts to a working interest. And so what you see

1 credited to them right now is some of that working
2 interest. And the question is whether a couple of those
3 other interests they took over have converted to a
4 working interest.

5 Now, I will point out that I had a
6 discussion with Titus this week and discussed that issue
7 further, and I believe we're getting closer to an
8 understanding as to that working interest.

9 Q. Okay. Now, those interests in Section 2 are
10 subject to an older JOA; is that correct?

11 A. Correct.

12 Q. And so are they also concerned that they have
13 contractual interests whereby if they ratify the unit
14 and get an operating agreement, their interests
15 terminate under that old JOA?

16 A. They are concerned with that. However, Chevron
17 does not believe that those interests will terminate.

18 Q. Okay. Thank you.

19 Now, as to Mr. McLeod's interest, he owned
20 interest down in Section 14 which is not now part of the
21 proposed unit; is that correct?

22 A. Correct.

23 Q. I think at one time Chevron proposed the north
24 half of Section 14 as being in the unit?

25 A. Yes. That was part of the initial plan, and

1 then later on we actually included the southern half of
2 Section 14 as well. That's when I actually met with
3 Mr. McLeod and his group in Denver in August of this
4 year.

5 Q. And there are some issues -- maybe it's only in
6 the south half -- about depth severances; is that
7 correct?

8 A. Correct.

9 Q. Now, at one point -- and there was a -- I'm
10 sure you remember, Mr. Cooper -- a day-long hearing
11 about four months ago about Section 14 and wells in
12 Sections 11 and 14 and to the south of Section 23; is
13 that correct?

14 A. Yes, sir.

15 Q. Now, at one point Chevron proposed wells from
16 Section 11 down into Section 14; is that correct?

17 A. Yes, sir.

18 Q. Looking at your Exhibit 7, those plans have
19 been abandoned; have they not?

20 A. They have been abandoned with the expectation
21 that Chevron completes a trade that is ongoing with EOG,
22 who is the other operator that is -- that is at issue
23 with Chevron's plans. So assuming that those trade --
24 that trade is finished, then what is shown in the plan
25 of development in Exhibit 7 is what will go forward, and

1 Chevron will then develop two-mile laterals to the south
2 in Sections 14 and 23.

3 So they are, right now, of the expectation
4 that those plans will change, but if something happens
5 to go awry with EOG on this trade with them, we will
6 have to rely on an ultimate forced pooling order from
7 the Division before we can decide the final production
8 and lateral lengths.

9 Q. And EOG's primary interests are in Section 23;
10 is that correct?

11 A. Yes. Their primary is in Section 23, and then
12 they own part of the Bone Spring Formation in the
13 southern half of Section 14.

14 Q. Yeah. Okay.

15 Do you have any timeline on the development
16 of Sections -- assuming you do the deal with EOG, of the
17 timing of any development of Sections 14 and 23?

18 A. So Chevron right now, the way that we're doing
19 our timing, as shown in Exhibit 7, you'll see
20 development taking place from third quarter of 2018
21 through 2022. Assuming that the EOG trade goes through,
22 we will then include Sections 14 and 23 during our
23 Avalon and our Wolfcamp development. That is mainly due
24 to our avoidance of simultaneous operations. We do not
25 want to complete or frac and drill next to each other.

1 So Sections 14 and 23 will allow us to basically jump
2 our rig over while continuing to frac on other sections.
3 So 14 and 23 will actually give Chevron more flexibility
4 for our development.

5 **Q. And doing the Avalon and -- the Bone Spring,**
6 **Avalon and the Wolfcamp together, you kind of skip over**
7 **some of those depth-severance issues; is that correct?**

8 A. Yes. We avoid those by quite a bit of footage
9 there, so the depth-severance issue wouldn't be a
10 problem with the Avalon and Wolfcamp A development.

11 **Q. Thanks, Mr. Cooper.**

12 A. Thank you.

13 EXAMINER McMILLAN: Okay. The first thing
14 is you're going to have an engineer provide an affidavit
15 of the measurement and description. We're not going to
16 accept the landman's description --

17 THE WITNESS: Understood. And we can
18 provide that to you.

19 MS. BRADFUTE: Mr. McMillan, if I may, we
20 do have an engineer here today. What specifically are
21 you looking for?

22 EXAMINER McMILLAN: Basically, the OCD is
23 not going to accept his description.

24 MS. BRADFUTE: Of? I'm sorry.

25 EXAMINER McMILLAN: The measurement

1 description. The measurement, that's not acceptable.

2 MS. BRADFUTE: Yes. Okay.

3 EXAMINER McMILLAN: Do you have anything?

4 EXAMINER BROOKS: I don't think so.

5 EXAMINER GOETZE: No questions. Thank you.

6 EXAMINER BROOKS: No questions.

7 MS. BRADFUTE: With that, I'd like to call
8 my second witness.

9 FRED VERNER,

10 after having been first previously under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MS. BRADFUTE:

14 Q. Could you please state your name for the
15 record?

16 A. Yes. Fred Verner, with a V.

17 Q. And, Mr. Verner, who do you work for?

18 A. Chevron.

19 Q. And what is your position at Chevron?

20 A. I am currently a regulatory advisor, but my
21 background is in geology and geophysics.

22 Q. Okay. And have you previously testified before
23 the Division?

24 A. Yes, I have.

25 Q. And did you testify in the capacity of being a

1 geologist?

2 A. Yes.

3 Q. And were your credentials accepted and made
4 part of the record?

5 A. Yes.

6 Q. Are you familiar with the application filed by
7 Chevron in Case 16436?

8 A. Yes.

9 Q. And are you familiar with the status of the
10 lands which are included within the Javelina Unit area?

11 A. Yes.

12 Q. Have you conducted a geologic study of the Bone
13 Spring and the Wolfcamp Formations within the unit?

14 A. I have.

15 Q. And have you prepared some exhibits as part of
16 your study?

17 A. I had these exhibits prepared for me.

18 Q. Okay. Thank you.

19 MS. BRADFUTE: I'd like to tender
20 Mr. Verner as an expert witness in geology matters.

21 MR. BRUCE: No objection.

22 EXAMINER McMILLAN: So qualified.

23 Q. (BY MS. BRADFUTE) Mr. Verner, if you could
24 please turn to Exhibit 10 and could you please identify
25 what this exhibit is?

1 A. Certainly. This is a type log within the
2 Javelina Unit area. This is the Federal #1. It's
3 located on the small base map on the left-hand side in
4 Section 12. The base map also shows the proposed unit
5 area.

6 As far as the tracks for the logs go, we've
7 got a gamma ray on the left side, a resistivity, two
8 density logs on the same track, and then the
9 photoelectric index log on the right. And what you're
10 looking at is all one well, but we have the Bone Spring
11 section displayed on the left side and the Wolfcamp --
12 actually, the 3rd Bone and the Wolfcamp section
13 displayed on the right side.

14 Q. And just to confirm, so the log on the left
15 side, which says "upper portion of log," is the Bone
16 Spring log?

17 A. Yes.

18 Q. And then on the right side of this slide, it
19 says "lower portion of the log," and that's the
20 Wolfcamp?

21 A. Correct, 3rd Bone and Wolfcamp.

22 Q. 3rd Bone and Wolfcamp. Thank you.

23 Can you please turn to what's been marked
24 as Exhibit 11?

25 A. Yes.

1 **Q. And could you please identify what this**
2 **document is?**

3 A. This is a basic structure map on the top of the
4 Avalon. It's showing a gentle dip to the east, very
5 consistent, no particular really structural items of
6 interest. It's a very gentle and consistent dip across
7 the proposed area.

8 **Q. Okay. So you haven't identified any faults or**
9 **pinch-outs or geologic impediments within the unit area?**

10 A. Not at all. And I did want to mention that all
11 the control points are also identified on the map as
12 well.

13 **Q. Okay. And could you please turn to Exhibit 12**
14 **and walk through this exhibit for the hearing examiners?**

15 A. All right. This is of the same area, but this
16 is an isopach map, a gross isopach, of the Avalon Shale,
17 so basically from the Bone Spring Lime down to the 1st
18 Bone Spring. It's roughly 1,000 feet thick in this
19 area. And what the map is really useful for is showing
20 that there is no particular stratigraphic variations in
21 thickness across the area.

22 **Q. So is it your opinion that the Avalon and the**
23 **1st Bone Spring sands extend fairly continuously across**
24 **the unitized area?**

25 A. Yes. But just as a matter of correction, this

1 map does not really refer to the 1st Bone Spring sands,
2 only the Avalon.

3 Q. Only the Avalon. Okay. Thank you.

4 If you could please turn to Exhibit 13, did
5 you also prepare a cross section of logs to determine
6 relative thickness and porosity of the Bone Spring
7 Formation?

8 A. Yes. And if you refer back to either of the
9 maps that we've just looked at, you'll see cross
10 sections, A, A prime, which is east-west, and then B, B
11 prime, which is the north-south cross section, and those
12 wells are represented here on the cross section.

13 Q. Okay. And Exhibit 13 is your cross section
14 going from A to A prime, correct?

15 A. That's correct.

16 Q. And could you please explain this cross section
17 to the hearing examiners?

18 A. Certainly. Again, this is at the top of the
19 cross section. It's hung off the Bone Spring Lime, so
20 the cross section covers the entire Avalon interval down
21 through the 2nd Carbonate to the top of the 3rd Bone.
22 The area of interest -- the zone of interest is really
23 the Lower Avalon, and the target interval is identified
24 by the green dot that you can see on both the left- and
25 right-hand margins.

1 Q. Okay. And so those green dots to the right and
2 to the left on this cross-section diagram show Chevron's
3 targeted interval?

4 A. That's correct.

5 Q. Do you consider the wells that you included
6 within this cross section to be representative of the
7 Bone Spring Formation within the unit?

8 A. Yes, they are.

9 Q. Could you please turn to the next exhibit,
10 Exhibit 14? Does Exhibit 14 contain Chevron's cross
11 section going from B to B prime?

12 A. Yes, it does.

13 Q. And could you please explain this document?

14 A. Well, it's essentially identical to the
15 previous, the east-west one. So this is north-south.
16 Again, it's hung off the Bone Spring Lime. The target
17 interval, which is the Lower Avalon, is identified with
18 the green dot in both the left- and right-hand margins.

19 Q. Okay. And do you consider the wells that you
20 selected for this cross section to be representative of
21 the Bone Spring Formation?

22 A. Yes, I do.

23 Q. And, Mr. Verner, what conclusions have you
24 drawn from your geologic study of the Bone Spring
25 Formation in this area?

1 A. Well, what we're seeing in the logs is that the
2 Lower Avalon is fairly consistent and continuous
3 throughout the area without any structural or
4 stratigraphic interruptions along the way.

5 Q. Okay. And have you also prepared a structure
6 map that analyzes the Wolfcamp Formation?

7 A. Yes.

8 Q. Could you please turn to Exhibit 15?

9 A. Yes.

10 Q. Does Exhibit 15 contain that structure map?

11 A. Yes, it does.

12 Q. And could you please explain this document to
13 the hearing examiners?

14 A. Again, very much like the Avalon structure in
15 this area, it's a gentle dip to the east, toward the
16 center of the basin. We're not seeing any particular
17 structural items of interest that would suggest any sort
18 of structural complexity in the area.

19 Q. And so just to confirm, you did not notice any
20 faults, pinch-outs or geologic impediments that would
21 interfere with contribution from the Upper Wolfcamp
22 zones in the unit?

23 A. That's correct.

24 Q. And could you please turn to Exhibit 16 and
25 explain what this map is?

1 A. This is a gross isopach from what we refer to
2 as the Wolfcamp A to the A2. Again, as we've seen in
3 the other maps, just very slight variation. In fact,
4 across the mapped area, it's probably less than 50 feet
5 in total of variation from one side of the unit to the
6 other.

7 **Q. Okay. And could you please next turn to**
8 **Exhibit 17 and explain what this document shows?**

9 A. Again, a gross thickness map from the top of
10 the Wolfcamp A2 to the B zone. It's a fairly thin zone,
11 150 feet, roughly, throughout the area. And, again, the
12 wobbles and the contours are probably more a function of
13 slight picks on the logs and do not represent any sort
14 of structural variation or stratigraphic variation.

15 **Q. Okay. And did you prepare a cross section of**
16 **logs to determine the relative thickness and porosity of**
17 **the Wolfcamp Formation as well?**

18 A. Yes. And those cross sections are identified
19 on these maps, now identified as C, C prime and D, D
20 prime.

21 **Q. Could you please turn to Exhibit 18? Does**
22 **Exhibit 18 contain the cross section running from C to C**
23 **prime?**

24 A. Yes, it does.

25 **Q. And could you please explain what this cross**

1 **section shows?**

2 A. Certainly. Again, this is hung off the top of
3 the Wolfcamp A marker. We've identified our zones of
4 interest with the green bars to the left and right
5 margins. But I would point out that you see two sets of
6 bars over there. The upper one, which is at about
7 11,600 to 12,000 feet, that is our target interval for
8 development. The second small bar down in the Wolfcamp
9 A2 is an exploratory target at this time.

10 **Q. Okay. And could you please turn to Exhibit 19?**
11 **Is this the cross section that's been prepared running**
12 **from D to D prime?**

13 A. Yes. This is the north-south cross section.
14 The annotation is identical to before. And, again, if
15 you look at the two cross sections together, what you'll
16 see is the target intervals are very consistent and
17 continuous throughout the area.

18 **Q. And would you consider the wells that you**
19 **included in your Wolfcamp cross sections to be**
20 **representative of the formation?**

21 A. Yes, I do.

22 **Q. And what conclusions have you drawn from your**
23 **study of the Wolfcamp Formation in the unit area?**

24 A. That it is a fairly predictable, consistent
25 formation. It makes a very nice target, and it should

1 be fairly easy to develop and productive interval.

2 Q. Okay. In your opinion, is the granting of
3 Chevron's application in the interest of preventing
4 waste?

5 A. Yes, it is.

6 Q. And if you could turn to Exhibit 20, this
7 exhibit explains, at least in part, why producing this
8 area as a unit will minimize waste, correct?

9 A. Yes, it does.

10 Q. And could you please explain in your own words
11 how waste will be minimized through this unit
12 development plan?

13 A. Well, this display hits on some, but, you know,
14 some other aspects are sort of implied by it. But our
15 development plan consists of pad drilling, extended
16 laterals, as you heard previously, two-mile laterals,
17 and zipper-fracking. I would say the vast majority of
18 operators in the basin would consider these best
19 practices for any development area. The idea is that
20 through the zipper-frac process, you are getting a much
21 better completion and a much larger stimulated rock
22 volume through that process. And as such, you are, in
23 effect, preventing waste as opposed to, say, drilling
24 one well at a time.

25 Q. Uh-huh. And is it also your opinion that the

1 granting of Chevron's application will protect
2 correlative rights?

3 A. Yes, it will.

4 Q. And will each of the -- will the owners in each
5 committed tract of the unit receive their fair and
6 equitable share of production?

7 A. Yes.

8 Q. Could you please turn to Exhibit 21? Does
9 Exhibit 21 summarize the findings of your geologic study
10 in this case?

11 A. Yes, it does.

12 Q. And, Mr. Verner, were Exhibits 10 through 21
13 prepared by you or compiled under your direction and
14 supervision?

15 A. Yes, they were.

16 MS. BRADFUTE: I would like to tender
17 Exhibits 10 through 21 into the record.

18 MR. BRUCE: No objection.

19 EXAMINER McMILLAN: Exhibits 10 through 21
20 may now be accepted as part of the record.

21 (Chevron USA, Inc. Exhibit Numbers 10
22 through 21 are offered and admitted into
23 evidence.)

24 MS. BRADFUTE: And that completes my
25 questions.

1 EXAMINER McMILLAN: Cross?

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

4 Q. Just one question, Mr. Verner. When looking at
5 the landman's Exhibit 7, talking about Bone Spring and
6 Wolfcamp development, besides the Avalon, are you
7 looking at 1st, 2nd and 3rd Bone Spring sands?

8 A. Yes.

9 Q. Is that further down the road?

10 A. Yes.

11 Q. Thanks.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. Okay. So realistically -- another way of
15 stating Exhibit 20, basically, is you're getting rid of
16 the pressure sinks, right?

17 A. Yes, avoiding them in the first place.

18 Q. And in creating the pressure sinks, you
19 basically create preferred frac directions, right?

20 A. Yes.

21 Q. And you're going to leave stimulated portions,
22 right? That's what you're saying?

23 A. Yes.

24 Q. Okay.

25 MR. BRUCE: I'm sorry. I was just asking

1 my client whether or not he wanted to say something, and
2 I can just make a short statement.

3 EXAMINER McMILLAN: Okay. Well, I mean, if
4 he's got something to say, say it.

5 MR. BRUCE: Go ahead.

6 His name is Dan Plazak. He can introduce
7 himself. There is no need to -- he's a geologist, but
8 he's not offering expert testimony.

9 MR. PLAZAK: Well, I would just like to say
10 that Douglas McLeod and Petrogulf Corporation is the
11 owner of a lease in the south half of 14 and support the
12 proposal. Even though we're out of the unit, as they've
13 testified, it opens up an opportunity to develop our
14 lease in an efficient manner. Our only concern is that
15 development not be delayed unduly. And that's all I
16 have to say.

17 EXAMINER McMILLAN: Okay. Do you have any
18 questions?

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 Q. Just one. On your thickness maps --

22 A. Yes.

23 Q. -- so we're just looking at the stratigraphic
24 thickness? We're not making any corrections for total
25 sand or total porosity or the way we use it?

1 A. Correct. They are just gross thickness.

2 **Q. Okay. Thank you.**

3 EXAMINER McMILLAN: Go ahead. Do you have
4 any questions?

5 EXAMINER BROOKS: No questions.

6 MS. BRADFUTE: With that, we ask that this
7 case be taken under advisement. And I can supplement
8 the statement from the engineer via email to you on the
9 measurement.

10 EXAMINER McMILLAN: And the affected
11 parties, too.

12 MS. BRADFUTE: And the affected parties.

13 EXAMINER McMILLAN: Do you have any
14 objections to that?

15 MR. BRUCE: No objection.

16 EXAMINER McMILLAN: Okay.

17 MS. BRADFUTE: Thank you.

18 EXAMINER McMILLAN: Case Number 16436 shall
19 be taken under advisement with the required information.

20 (Case Number 16436 concludes, 10:55 a.m.)

21 (Recess, 10:55 a.m. to 11:09 a.m.)

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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 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

25