

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

ORIGINAL

APPLICATION OF CELERO ENERGY II, LP, TO Case 14914  
REOPEN CASE NO. 14914 FOR STATUTORY  
UNITIZATION, CHAVES AND LEA COUNTIES, NEW MEXICO

APPLICATION OF CELERO ENERGY II, LP, TO Case 14915  
INSTITUTE A WATERFLOOD PROJECT AND A TERTIARY  
RECOVERY PROJECT FOR THE NORTH CAPROCK CELERO  
QUEEN UNIT AREA, CHAVES AND LEA COUNTIES, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Presiding Examiner  
DAVID K. BROOKS, Legal Examiner

November 29, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, RICHARD EZEANYIM,  
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,  
on Thursday, November 29, 2012, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South St.  
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91  
Paul Baca Professional Court Reporters  
500 Fourth Street, N.W., Suite 105  
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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87501  
(505)982-2043

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1                   EXAMINER EZEANYIM: At this point, we go  
2 back on to the record and continue with the docket. And  
3 we're on the final page, page 5. These two cases,  
4 Numbers 19 and 20, we heard these cases last time, but  
5 there's a problem.

6                   Case Number 14914 is statutory unitization,  
7 and Case 14915 is enhanced recovery. We have heard that  
8 case. I don't think we are going to be hearing it again  
9 today, unless you want to present something. I think we  
10 are here to do the statutory unitization.

11                  MR. BRUCE: That's mainly it. But we do  
12 have our engineer here so that you can ask any questions.

13                  EXAMINER BROOKS: We need to get -- for  
14 some reason, Jaime could not find the log on that well,  
15 the reference log well on that case, so --

16                  MR. BRUCE: We can certainly get that.

17                  EXAMINER BROOKS: I think it's probably on  
18 our website, but I think there may be a problem about the  
19 well number.

20                  MR. PARKHURST: We can always supply it.

21                  EXAMINER BROOKS: We would appreciate  
22 that. Because you can't correlate the zone unless you  
23 have the log.

24                  EXAMINER EZEANYIM: I think we can discuss  
25 it when we are doing Case Number 14914. But my point is

1 that unless I have any other questions I need to ask you  
2 about the secondary enhanced recovery, I thought I asked  
3 all the questions at the time we heard it before. Unless  
4 there is something new that you want to present --

5 MR. BRUCE: I don't think there is. We  
6 just want to talk about the unitized interval today.

7 EXAMINER BROOKS: Yeah, that's the major  
8 thing.

9 EXAMINER EZEANYIM: I wanted to set it up  
10 first. If you need to say something about the other  
11 case, Case Number 14915, you can say anything you want.  
12 It's on the docket. But I thought we heard it, and we  
13 have the transcript.

14 MR. BRUCE: It was continued mainly  
15 because notice had not gotten out on time.

16 EXAMINER EZEANYIM: Okay. So I will call  
17 both of them at the same time. First of all, give us the  
18 notice requirements on that, and then we'll proceed with  
19 Case Number 14914. Is that okay with you?

20 MR. PARKHURST: Very good. Yes.

21 EXAMINER EZEANYIM: At this time I will  
22 call these two cases. They will be consolidated for the  
23 purposes of hearing. And this is Case Number 14914,  
24 application of Celero Energy II, LP, to reopen Case  
25 Number 14914 for statutory unitization, Chaves County,

1 New Mexico.

2           And then the second consolidated case is Case  
3 Number 14915, application of Celero Energy II, LP, to  
4 institute a waterflood project and a tertiary recovery  
5 project for the North Caprock Celero Queen Unit Area,  
6 Chaves and Lea Counties, New Mexico.

7           I will first of all address Case 14915, and  
8 then ask for appearances on that case.

9           MR. BRUCE: Mr. Examiner, Jim Bruce, of  
10 Santa Fe, representing the applicant. I do have one  
11 witness available for questioning, if necessary.

12           EXAMINER EZEANYIM: Any other appearances?

13           Could you proceed with that case and give us  
14 what is required on Case Number 14915?

15           MR. BRUCE: Simply put, on Case 915,  
16 submitted as Exhibit 7 is the -- there was testimony in  
17 the record as to the parties we had to notify of the  
18 waterflood case, which was -- since Celero is 100 percent  
19 working interest owner, the only other party that needed  
20 to be notified was the Commissioner of Public Lands.

21           And Exhibit 7 is my affidavit of notice,  
22 showing that notice was given to the Commissioner of  
23 Public Lands.

24           EXAMINER EZEANYIM: If we are done with  
25 that case, then we go to Case 14914.

1 MR. BRUCE: And I enter an appearance in  
2 that case, and I have Mr. Parkhurst here to testify.

3 EXAMINER EZEANYIM: Let me say something  
4 about that case. Like we heard, we are trying to write  
5 it. We couldn't correlate the stratigraphy on what your  
6 unitizing interval is and where your injection interval  
7 is.

8 So when we were looking at it, you have a very  
9 tiny unitized interval. However, your injection is  
10 beyond the zone of the injection interval, so we couldn't  
11 correlate it. Actually, we are here to be able to  
12 correlate that.

13 When I was reading the case, I thought you  
14 guys did a good job. This is what you did in your  
15 application. That has been done. This is in the  
16 application when you said, on the stratigraphy, 50 feet  
17 above and 50 feet below. If we had that the first time,  
18 we shouldn't be here because of this. As long as we have  
19 a log to demonstrate those things, that gives me a leeway  
20 to confine your unitized interval and also your injection  
21 interval.

22 MR. BRUCE: We will address that briefly.

23 EXAMINER EZEANYIM: Very good. You may  
24 proceed.

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DAVID PARKHURST

Having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Please state your name for the record.

A. David Parkhurst.

Q. Where do you reside?

A. Midland, Texas.

Q. Who do you work for, and in what capacity?

A. Celero Energy, and I am an engineer.

Q. Have you previously testified before the  
Division as an engineer?

A. Yes.

Q. Were your credentials as an expert petroleum  
engineer accepted as a matter of record?

A. Yes.

Q. And are you familiar with the matters involved  
in the unitization application today?

A. Yes.

MR. BRUCE: Mr. Examiner, I tender  
Mr. Parkhurst as an expert petroleum engineer.

EXAMINER EZEANYIM: So qualified.

Q. (By Mr. Bruce) Mr. Parkhurst, when we came  
here four weeks ago, the proposed unitized interval was  
about 14 feet thick or 16 feet thick?

1           A.     It was 14 feet.

2           Q.     As we know, this unit was an old unit that  
3     expired, and there are some offsetting Queen units also.  
4     In those units, the ones that remained in effect, and in  
5     this unit, was the unitized interval always quite narrow?

6           A.     Yes, very thin.

7           Q.     But when you were presenting data on the  
8     initial injection well, it had a bigger interval than the  
9     14 feet; is that correct?

10          A.     That's correct.

11          Q.     Could you explain why that occurred and why  
12     that -- and is that so throughout the proposed unit area?

13          A.     It varies per well.  What you have here is  
14     some -- the original completions here were drilled down  
15     to the top of the Queen, and then openhole -- they were  
16     cased, and then it was drilled openhole through the Queen  
17     formation.  So you had quite a difference in your depth  
18     from well to well.

19          Q.     So even in the old units, the existing ones  
20     and in the expired North Queen Unit, when the prior  
21     operator was injecting into that thin unitized interval,  
22     it was still actually injecting into the openhole  
23     interval; is that correct?

24          A.     That's correct.

25          Q.     You are here to propose a unitized interval

1 that would cover all of the exposed depths?

2 A. That's correct.

3 Q. What is Exhibit 1?

4 A. Exhibit 1 is a type log. There is a map on  
5 the back that shows where the type log for the well is  
6 located within the unit. This is the old unitized  
7 interval, the very thin interval. Like you said, we went  
8 50 foot above that and 50 feet below that.

9 EXAMINER EZEANYIM: Is that indicated in  
10 the -- is that blue or green?

11 THE WITNESS: It's green.

12 EXAMINER EZEANYIM: Pardon me. I'm color  
13 blind.

14 Does that include 50 above and 50 below?

15 THE WITNESS: Yes, sir.

16 EXAMINER EZEANYIM: And that would be  
17 from what depth?

18 THE WITNESS: 3,002 to 3,116 feet.

19 EXAMINER EZEANYIM: Okay.

20 Q. (By Mr. Bruce) And Mr. Parkhurst, even though  
21 you've got this bigger interval, the injected fluids  
22 would still be contained within this Queen Formation?

23 A. That's correct. If you look at the 50 feet  
24 above and below the old unitized interval, those are  
25 anhydrites and salt sections. There is no reservoir

1 quality. They do have a little bit of porosity, but no  
2 permeability.

3 Q. So there will be no movement of fluid between  
4 zones, and all the injection fluids will remain within  
5 the unitized interval?

6 A. That's correct.

7 MR. BRUCE: Mr. Examiner, Exhibit 2 is  
8 simply an amended -- the first page of the unit  
9 agreement, amended to reflect the new unitized interval.  
10 It does give the reference well, and we will get a  
11 complete log for you or whatever Celero has after the  
12 hearing, a well log to you.

13 EXAMINER EZEANYIM: Are you going to get  
14 that? Because that's what I am looking for.

15 MR. BRUCE: This part is there, but we  
16 will submit the entire log to you.

17 EXAMINER EZEANYIM: Very good.

18 Q. (By Mr. Bruce) And Mr. Parkhurst, has the  
19 Commissioner of Public Lands agreed to the new unitized  
20 interval?

21 A. Yes.

22 Q. And what is Exhibit 3?

23 A. Exhibit 3 is just a small economic summary.

24 I know the last time I was down here, Richard,  
25 you had asked to see some economics. This is a fairly

1 simple look. We're going to have nine injectors and four  
2 producers. We're going to spend about two and a half  
3 million dollars of capital.

4 We're hoping that these wells are going to  
5 probably average about seven to eight barrels a day,  
6 which doesn't sound like a whole lot. But they will be  
7 on a very shallow decline because it's post waterflood.  
8 So this project should generate something in the 20  
9 percent rate of return.

10 Q. If you had to go back into the proposed north  
11 unit and reconfigure the wells so that they were only  
12 injecting into that 14-foot interval, would it make the  
13 project uneconomic?

14 A. It probably would if we had to come back in  
15 and run liners across every one of those. That's a  
16 pretty substantial cost.

17 Q. Exhibit 3 was previously submitted to the  
18 Division, but this is just to make it an official part of  
19 the record?

20 A. Yes, sir.

21 MR. BRUCE: And Mr. Examiner --

22 EXAMINER EZEANYIM: Let me ask a question  
23 on this economics. I'm trying to understand what you are  
24 trying to do here. Your capital is 2.5 million?

25 THE WITNESS: Yes, sir.

1 EXAMINER EZEANYIM: When you start this  
2 project, you assume a 20 percent rate of return?

3 THE WITNESS: Yes, sir.

4 EXAMINER EZEANYIM: Is that necessarily  
5 what you get in this area?

6 THE WITNESS: Yes, for a waterflood.

7 EXAMINER EZEANYIM: What is your  
8 incremental profit here? That's what I'm looking at, to  
9 see if we can do this.

10 THE WITNESS: I didn't put any net present  
11 value. I put the incremental reserves of payout and a  
12 rate of return, but I did not put --

13 EXAMINER EZEANYIM: No calculation on how  
14 much -- well, I'm looking at dollar signs. You have to  
15 make some assumptions and come up with some dollar signs,  
16 because that would be part of the Statutory Unitization  
17 Agreement, under the Oil and Gas Act, we need to  
18 determine to approve it. I mean if you're going to lose  
19 money, why would you approve it?

20 THE WITNESS: We wouldn't do the project  
21 if we were losing money.

22 EXAMINER EZEANYIM: Can I have that  
23 calculation showing what your net profit would be?

24 THE WITNESS: Yes, sir.

25 EXAMINER EZEANYIM: Okay. Go ahead.

1 MR. BRUCE: Mr. Examiner, that's pretty  
2 much it for the witness. I would just go through the  
3 remaining exhibits myself.

4 Exhibit 4 simply contains copies of  
5 ratifications from overriding royalty interest owners in  
6 the unit.

7 Exhibit 5 is ratifications from record  
8 title -- lease record title owners in the unit, which is  
9 required by the Commissioner of Public Lands.

10 Exhibit 6 is the letter and the certificate  
11 from the Commissioner of Public Lands approving the unit.  
12 This is their final approval of the unit, effective  
13 October 31. Of course, it is dependent on final Division  
14 approval of the unit.

15 And as I said, Exhibit 7 is just the  
16 waterflood notice. And Exhibit 8 is the notice -- I did  
17 give notice of the revised unit agreement to the interest  
18 owners in the unit, and this is just the notice  
19 affidavit.

20 I would note that on the final page, there are  
21 two parties that did not -- I haven't gotten green cards  
22 back. One of them is Crown Oil Partners, which ratified  
23 the unit, so I don't think that's important. And the  
24 other one is Black Crown Energy Partners, which I was  
25 informed yesterday is actually merged into Crown Oil

1 Partners. So notice was received by all of the interest  
2 owners in the unit of the revised unitization interval.

3 Q. (By Mr. Bruce) And Mr. Parkhurst, were  
4 Exhibits 1 through 3 prepared by you or compiled from  
5 company business records?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I've just gone  
8 through the other exhibits, which are simply paperwork  
9 which has been submitted to the Commissioner of Public  
10 Lands, and they have approved the unit. And I'd move the  
11 admission of Exhibits 1 through 8.

12 EXAMINER EZEANYIM: Exhibits 1 through 8  
13 will be admitted.

14 (Exhibits 1 through 8 were admitted.)

15 MR. BRUCE: We will get you the other info  
16 you requested.

17 EXAMINER EZEANYIM: Okay,

18 EXAMINER BROOKS: No questions.

19 EXAMINER EZEANYIM: Okay. Let's examine  
20 what we were looking for, the economics. We are going to  
21 examine the economics in the order.

22 EXAMINATION

23 BY EXAMINER EZEANYIM:

24 Q. On your application, on your first page, I  
25 want to look at that and see how you come up with this 50

1 feet above and 50 feet below. So we need that log.

2 A. Right.

3 Q. If we get that log to see how to position  
4 this, we can see that this is correct and that what you  
5 said here is correct, and then we are in business.

6 What is the injection interval here now? I  
7 forgot. What is the injection interval?

8 A. I believe from 3,002 to 3,116 feet.

9 Q. You are requesting from 3,002, okay, to 3,100  
10 feet?

11 A. 3,116 feet.

12 EXAMINER BROOKS: Is that the injection  
13 interval in the injection well?

14 THE WITNESS: Yes, sir.

15 MR. BRUCE: And any potential future  
16 injection well?

17 THE WITNESS: That's correct.

18 EXAMINER BROOKS: Because we had a  
19 question about the injection interval in the injection  
20 well versus the reference interval in the -- or versus  
21 the interval in the reference well.

22 MR. BRUCE: Yeah, and Mr. Parkhurst can  
23 answer this. But I think in the initial injection well,  
24 it's less than this 114-foot interval that you're  
25 requesting here today.

1 THE WITNESS: That's correct.

2 EXAMINER BROOKS: Go ahead.

3 EXAMINER EZEANYIM: Ask your question  
4 again.

5 EXAMINER BROOKS: I'm trying to figure  
6 out -- maybe I'd better go over it. What is the  
7 injection interval for the unitized formation, as defined  
8 in the reference well?

9 MR. BRUCE: That would be on that exhibit  
10 right there.

11 THE WITNESS: It's on Exhibit 1.

12 EXAMINER BROOKS: This doesn't have  
13 footages on it -- oh, 3,002 to 3,116, but that's the 50  
14 feet above and below. So these are the footages in the  
15 reference well, not the footages in the injection well,  
16 right, the 3,002 and the 3,116?

17 MR. BRUCE: That is in the reference well.

18 EXAMINER BROOKS: So the actual interval  
19 that you're looking at, the pay interval, is from 3,052  
20 to 3,066; right? Because the 3,002 to 3,116 is 50 above  
21 and 50 below.

22 MR. BRUCE: Fifty above and 50 below.

23 EXAMINER BROOKS: And the injection, where  
24 you're going to go to your injection well, that would be  
25 the interval that correlates with that?

1 MR. BRUCE: And I will have Mr. Parkhurst  
2 confirm that. But in looking at the C-108 that was  
3 submitted for the initial injection well, it's in the  
4 upper portion of that. It looks like the bottom perf  
5 is -- in that well, the correlative interval is 3,042  
6 feet, so it's only about a 40-foot interval.

7 EXAMINER BROOKS: Okay. Go ahead. I'm  
8 sorry I interrupted.

9 EXAMINER EZEANYIM: That's a good  
10 question, because I wanted to get the answer to that.

11 Let's examine now the economics and then the  
12 stratigraphic map that demonstrates what you just  
13 indicated. We are going to get that? Because for some  
14 reason, we can't get it on line. Do you have that log?  
15 I was expecting that you'd come in with that log.

16 THE WITNESS: We can send you that log.  
17 It would be the same log that we pulled up here.

18 MR. BRUCE: We just gave you the portion  
19 of the log for the unitized interval. We will get you  
20 the entire log. And we will give you the tops of  
21 potential injection wells so you can see that it's  
22 correlative depths.

23 EXAMINER EZEANYIM: That's exactly what we  
24 need to do to write this order.

25 So we're not going to continue anything.

1 We're waiting to -- once we get it, then we'll see what  
2 we can do.

3 And then on the other case, 915, I don't have  
4 any more questions. I think I am convinced.

5 Okay. Do you have anything more?

6 MR. BRUCE: That's it.

7 EXAMINER EZEANYIM: Okay. Case Number  
8 14914 and Case Number 14915 will be taken under  
9 advisement.

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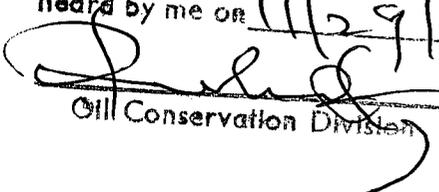
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14914  
heard by me on 11/29/12 14915  
 Examiner  
Oil Conservation Division

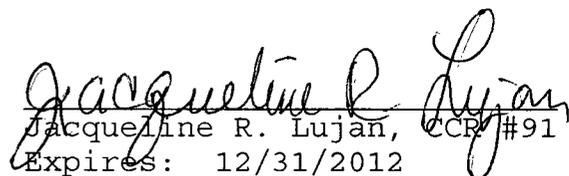
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on November 29, 2012, proceedings in  
the above captioned case were taken before me and that I  
did report in stenographic shorthand the proceedings set  
forth herein, and the foregoing pages are a true and  
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by  
nor related to nor contracted with any of the parties or  
attorneys in this case and that I have no interest  
whatsoever in the final disposition of this case in any  
court.

WITNESS MY HAND this 11th day of December,  
2012.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2012