

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

ORIGINAL

APPLICATION OF CHEVRON U.S.A., INC FOR APPROVAL OF A
474.71 ACRE NON-STANDARD PROJECT AREA AND TO AMEND
ADMINISTRATIVE ORDERS CTB-760 AND OLM-97 TO ADD
PRODUCTION FROM THIS PROJECT AREA TO THE AUTHORIZED
SURFACE COMMINGLING, LEA COUNTY, NEW MEXICO

CASE NO. 15393

OCTOBER 15, 2015
1220 S. St. Francis Drive
Santa Fe, NM 87505

HEARING EXAMINER: MICHAEL MCMILLAN

LEGAL COUNSEL: GABRIEL WADE

APPEARING FOR THE APPLICANT:

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1 (Note: Proceedings in session.)

2 HEARING EXAMINER MCMILLAN: What I would
3 like to do at this time is call Case No. 15393,
4 Application of Chevron U.S.A. Incorporated For
5 Approval of a 474.71 Acre Non-standard Project Area
6 and to Amend Administrative Orders CBT-760 and
7 OLM-97 to Add Production From This Project Area to
8 the Authorized Surface Commingling, Lea County, New
9 Mexico. Call for appearances.

10 MR. FELDEWERT: May it please the
11 examiner, Michael Feldewert from Holland & Hart and
12 I have two witnesses here today.

13 HEARING EXAMINER MCMILLAN: If the
14 witnesses would you be sworn.

15 (Note: Witnesses sworn.)

16 MR. FELDEWERT: Mr. Examiner, we will call
17 the first witness.

18 INDIA ISBELL
19 after having been first duly sworn under oath,
20 was questioned and testified as follows:

21 EXAMINATION

22 BY MR. FELDEWERT

23 Q. Would you please state your name, identify
24 by whom are you employed and in what capacity?

25 A. India Isbell, Land Team Lead for Chevron.

1 Q. Ms. Isbell have you previously testified
2 before this division?

3 A. Yes, I have.

4 Q. Have you had your credentials as a
5 petroleum landman been accepted as a matter of
6 public record?

7 A. Yes, I have.

8 Q. Are you familiar with the application
9 filed in this case?

10 A. Yes, I am.

11 Q. Are you familiar with the status of the
12 land of the subject area?

13 A. Yes, I am.

14 MR. FELDEWERT: I would once again tender
15 Ms. Isbell as an expert in land matters.

16 HEARING EXAMINER MCMILLAN: So qualified.

17 MR. FELDEWERT: Would you be turn to
18 what's been marked as Chevron Exhibit No. 1. First,
19 before we get into what the company seeks, would you
20 describe what that shows.

21 A. This is a Midland map. Outlined in red is
22 the west half of Section 29 and the irregular
23 Section 32. This is along the Texas border.

24 Q. How many leases are involved with this
25 west half acreage?

1 A. Two. There's a federal lease that covers
2 the acreage in Section 29 and a state lease that
3 covers acreage in Section 32.

4 Q. We will call this the west half of the
5 project acreage, okay?

6 A. Okay.

7 Q. The east half of the acreage, is that an
8 approved single project area?

9 A. Yes, it is.

10 Q. Was that approved by the division Order R
11 10435?

12 A. Yes.

13 Q. That approval as a project area was for
14 the Bone Spring formation only; is that correct?

15 A. That is correct.

16 Q. And has there been, as reflected on here,
17 four wells drilled on this project area?

18 A. Yes.

19 Q. And if we can, let's refer to this as the
20 east half project area.

21 A. Okay.

22 Q. Then I see on the west half of the west
23 half of this acreage another wellbore. What's the
24 circumstance there?

25 A. That is Chevron's Moose's Tooth well. The

1 Midland map is inaccurate. The bottom hole location
2 is actually in the northwest quarter of the
3 northwest quarter of Section 32, so we did not
4 penetrate that final quarter quarter with the
5 Moose's Tooth.

6 Q. How many acres then was dedicated to the
7 Moose's Tooth well?

8 A. 200 acres.

9 Q. Is that, in and of itself, an improved,
10 non-standard project area?

11 A. Yes.

12 MR. FELDEWERT: Mr. Examiner, that's
13 approved by Division Order NSP 2021.

14 Q. (By Mr. Feldewert) You said there's 100
15 acres dedicated to this?

16 A. Yes.

17 Q. So we will call this the 200-acre project
18 area?

19 A. Yes.

20 Q. All right. Is the production from that
21 east half project area and the 200-acre project
22 area, is that being commingled at a common tank
23 battery?

24 A. Yes, it is. The Porter Brown tank
25 battery, which is located in Section 19.

1 Q. Is that in the very southeast of the
2 southeast quarter of that section?

3 A. Yes.

4 Q. Is that shown on this map that says
5 Chevron P. Brown? Is that roughly where it's
6 located?

7 A. Yes.

8 Q. And that commingling between the east half
9 project area and the 200-acre project area, that's
10 been approved by the division?

11 A. Yes.

12 MR. FELDEWERT: Mr. Examiner, that was
13 under CTB 760 and OLM 97.

14 Q. With that said, what does the company seek
15 under this application?

16 A. We are seeking a non-standard project area
17 for the west half that is outlined in red on the
18 map.

19 Q. Is that again just for the Bone Spring
20 formation?

21 A. Yes.

22 Q. We will call this the west half project
23 area?

24 A. Yes.

25 Q. All right. And do you also then seek to

1 amend the existing commingling applications to add
2 the west half project area to the approved
3 commingling?

4 A. Yes, we do.

5 Q. I should say add production?

6 A. Yes.

7 Q. All right. If I then turn to what's been
8 marked as Chevron Exhibit 2, is that a cartoon of
9 your proposed development for the west half area?

10 A. Yes, it is.

11 Q. Does it show the permitted wells?

12 A. Yes, it does.

13 Q. And are they to be drilled from a single
14 well pad?

15 A. Yes.

16 Q. How is it identified?

17 A. It is the little yellow box with the four
18 dots at the top of the map.

19 Q. This identifies the two leases involved,
20 one federal and one state?

21 A. Correct. Federal in green and state in
22 blue.

23 Q. If I turn to what's marked as Chevron
24 Exhibit 3, are these the currently filed AP C-102s
25 for each of the four wells reflect 2nd on Exhibit 2?

1 A. Yes.

2 Q. And this shows the surface and the bottom
3 hole location for the proposed wells?

4 A. Yes.

5 Q. Again, to be drilled from the common well
6 pad?

7 A. Correct.

8 Q. Does this identify then for the examiner
9 the pools that's involved for the wells?

10 A. It does.

11 Q. And it's got a bunch of numbers with it,
12 right?

13 A. Yes.

14 Q. Then is this particular pool subject to
15 the division state-wide rules?

16 A. Yes.

17 Q. And while not reflected on this particular
18 File C-102, will the completed interval for all four
19 wells comply with the 330-foot setbacks required by
20 the division's rules?

21 A. Yes, they will.

22 Q. The other thing about the C-102s, I notice
23 they are currently dedicated to roughly 327 acres;
24 is that correct?

25 A. Yes.

1 Q. Will that acreage dedication change once
2 this west half project area is completed?

3 A. Yes, it will.

4 Q. What is the status of the drilling of
5 these four development wells?

6 A. We have started drilling the 4H. We have
7 drilled the vertical portion.

8 Q. In connection with putting this project
9 together, actually the development of this entire
10 area, Sections 29 and 32, did the company have
11 various meetings with the Bureau of Land Management?

12 A. Yes, they did.

13 Q. And what was first proposed to the Bureau
14 of Land Management and what was finally decided by
15 the Bureau?

16 A. Chevron initially requested an enlarged
17 project area to cover all of Section 29 and 32. The
18 BLM, because there's an additional lease in the east
19 half, they requested we divide it up into an east
20 half and west half project area.

21 Q. The east half has been approved by the
22 division?

23 A. It has been approved by the division, yes.

24 Q. Now we are here with the west half project
25 area?

1 A. Yes.

2 Q. Did you visit with the BLM in the New
3 Mexico State Land office about a communitization
4 agreement covering the west half project area?

5 A. Yes.

6 Q. And if I turn to what's marked as Chevron
7 Exhibit 4, is that the communitization agreement for
8 the west half project area?

9 A. Yes, it is.

10 Q. And does this follow the form that was
11 directed by the BLM?

12 A. Yes, it does.

13 Q. It contains the Exhibits A and B?

14 A. Yes.

15 Q. All right. And if you look at this down
16 in the first paragraph it's communitization
17 agreement, I think your application is limited to
18 the Bone Spring formation, correct?

19 A. Yes.

20 Q. What's the circumstance with respect to
21 the effective date of this proposed project area?

22 A. The communitization agreement will be
23 effective January 1st of 2016 or first production,
24 whichever is earlier.

25 Q. Right now you are in the process of

1 drilling the initial well?

2 A. Correct.

3 Q. What's the status of the BLM approval of
4 the communitization agreement?

5 A. The BLM will not approve communitization
6 agreements until the completion reports have been
7 filed for all four wells or all of the wells in the
8 project area.

9 Q. However, have they given you preliminary
10 approval of the communitization agreement?

11 A. We have preliminary approval.

12 Q. Did the company also visit with the New
13 Mexico State Land Office about this communitization
14 agreement?

15 A. Yes.

16 Q. If I turn to what's marked as Chevron
17 Exhibit 5, is this the final approval letter from
18 the New Mexico State Land Office?

19 A. Yes, it is.

20 Q. And actually contains a certificate of
21 final approval, correct?

22 A. Yes.

23 Q. Turning back briefly to Exhibit No. 1, the
24 Midland map, the communitization agreement and the
25 approval we just talked about covered that acreage

1 that's identified in red, correct?

2 A. Yes.

3 Q. What did both the BLM and the New Mexico
4 State Land Office instruct concerning the existing
5 200-acre project area for the Moose's Tooth well?

6 A. That will be its own project area. It
7 will be kept separate.

8 Q. So it will have overlapping project areas?

9 A. Correct.

10 Q. I should say overlapping communitized
11 areas?

12 A. Yes.

13 Q. That's been approved by both the BLM and
14 the New Mexico State Land Office?

15 A. Yes.

16 Q. Okay. Then in the course of proceeding,
17 did you ascertain whether there were any overriding
18 royalty interest owners in your proposed west half
19 project area?

20 A. Yes, we did.

21 Q. How many are there?

22 A. There are four in the federal lease.

23 Q. And if I turn to what's marked as Chevron
24 Exhibit No. 6, are these copies of the ratification
25 and joinder of communitization agreement that has

1 been executed by all four of the overriding interest
2 owners?

3 A. Yes, it is.

4 Q. Okay. Now, you mentioned in addition
5 seeking approval of the west half project area that
6 you seek to add the production from this area to the
7 approved commingling application or the commingling
8 orders?

9 A. Yes.

10 Q. If I turn to what's marked as Chevron
11 Exhibit No. 7, are those the two division -- is that
12 one of the two division orders that were issued for
13 what we call the east half project area and the 200
14 acre project area?

15 A. Yes.

16 Q. And that would be CTB 760 and then OLM 97?

17 A. Yes.

18 Q. And if you look at this particular order,
19 it identifies two leases, correct?

20 A. Correct.

21 Q. And the first lease identified, is that
22 the east half project area?

23 A. Yes, it is.

24 Q. And the second lease identified, is that
25 the 200 acre project area for the Moose's Tooth?

1 A. Yes, it is.

2 Q. And am I correct that what you're seeking
3 here is simply to add as an additional, quote
4 unquote, lease the west half project area?

5 A. Yes.

6 Q. And all of the other aspects of this
7 particular order will remain the same?

8 A. Yes.

9 Q. All the production will still be measured
10 and sold at the same tank battery reflected in the
11 order?

12 A. Yes.

13 Q. And the production from the west half
14 metered and measured as reflected in the order?

15 A. Yes.

16 Q. Will you also, as the order reflects, add
17 any additional wells from this project area by
18 filing a sundry notice with the division identifying
19 these orders?

20 A. Yes.

21 Q. Okay. Is the Bone Spring pool in this
22 area spaced on 40 acres?

23 A. Yes.

24 Q. In the course of preparing for this
25 hearing, did the company identify the affected

1 parties in the 40-acre tract surrounding this west
2 half project.

3 A. Yes.

4 Q. Who were the companies?

5 A. COG and ConocoPhillips. I'm sorry, EOG.

6 Q. And did the company also, in the course of
7 preparing for this hearing since it was seeking
8 commingling approval, did you identify the royalty
9 and overriding royalty interest owners in the east
10 half project area?

11 A. Yes, we did.

12 Q. The west half project area?

13 A. Yes.

14 Q. And the 200-acre project area?

15 A. Yes.

16 Q. Are they included in the notice of this
17 hearing?

18 A. Yes.

19 Q. If I turn to what's been marked as Chevron
20 Exhibit No. 8, is this an affidavit of notice
21 prepared by my notice directed to these parties?

22 A. Yes, it is.

23 Q. Were Chevron Exhibits 1 through 7 prepared
24 by you or compiled under your supervision and
25 direction?

1 A. Yes.

2 MR. FELDEWERT: Mr. Examiner, I move the
3 admission into evidence of Chevron Exhibits 1
4 through 8, which includes my notice of affidavit.

5 HEARING EXAMINER MCMILLAN: Exhibits 1
6 through 8 may now be accepted as part of the record.

7 (Note: Exhibits 1 through 8 admitted.)

8 MR. FELDEWERT: That concludes my
9 examination of the witness.

10 LEGAL COUNSEL WADE: I think you mentioned
11 what you're calling the east half project area has
12 been approved by the OCD and I think you gave the
13 Order No. 13045, correct.

14 THE WITNESS: It has been approved. I
15 need to doublecheck the order number.

16 MR. FELDEWERT: If it will help, I had my
17 secretary make a copy of that. If I may approach.
18 I won't mark it as an exhibit since it's an existing
19 division order. For the record, this is Division
20 Order R 14035.

21 LEGAL COUNSEL WADE: No further questions
22 except for -- I guess I have one more. The green
23 cards that are in Exhibit 8 reflect all the parties
24 that were to receive notice in the east half and in
25 the -- east half, west half and the 200-acre?

1 THE WITNESS: Yes. The four overrides are
2 the same.

3 LEGAL COUNSEL WADE: Okay.

4 HEARING EXAMINER MCMILLAN: So you are
5 saying the BLM will not approve until all four wells
6 are drilled?

7 THE WITNESS: Until we file the completion
8 reports. Until they are approved and provided to
9 the BLM.

10 MR. FELDEWERT: Mr. Examiner, if it helps,
11 there's a similar finding in the order that's
12 provided.

13 LEGAL COUNSEL WADE: Can you point to that
14 finding so I can mark it?

15 MR. FELDEWERT: It's on Page 2, Paragraph
16 5, Subsection Paragraph H. May I call the next
17 witness?

18 HEARING EXAMINER MCMILLAN: Please
19 proceed.

20 PATRICK TAHA
21 after having been first duly sworn under oath,
22 was questioned and testified as follows:

23 EXAMINATION

24 BY MR. FELDEWERT

25 Q. Would you please state your name identify

1 by whom are you employed and in what capacity?

2 A. My name is Patrick Taha. I work for
3 Chevron has a geologist.

4 Q. Were your credentials as an expert in
5 petroleum geology accepted and made a matter of
6 record with the division?

7 A. Yes, they were.

8 Q. In fact, did you previously testify as an
9 expert in petroleum geology before the division for
10 the east half project area?

11 A. Yes, I did.

12 Q. Have you conducted your geologic study of
13 the lands that are the subject of this particular
14 application?

15 A. I have.

16 Q. Are you familiar with the application
17 that's been filed?

18 A. Yes, I have.

19 MR. FELDEWERT: I would tender Mr. Taha as
20 an expert.

21 HEARING EXAMINER MCMILLAN: So qualified.

22 Q. Would you please identify for the
23 examiners the actual target of your proposed
24 horizontal wells in the Bone Spring formation?

25 A. The current target is the Upper Avalon,

1 the uppermost unit within the Bone Spring.

2 Q. Is that a shale formation?

3 A. It is.

4 Q. Does this particular shale formation or
5 interval extend across the proposed west half?

6 A. Yes, across the entire area.

7 Q. Have you prepared a cross-section to
8 support this conclusion?

9 A. I have.

10 Q. If I turn to what's marked as Chevron
11 Exhibit 9, is this your cross-section?

12 A. This is.

13 Q. Would you please identify for the -- kind
14 of orient us to the exhibit and identify what it
15 shows.

16 A. Sure. These are the two closest wells
17 that cover the entire Bone Spring interval. We can
18 see there's continuity across here, in the Upper
19 Avalon, Lower Avalon and the Bone Spring units which
20 are the current target. Other wells further afield
21 show very similar stratigraphy across the entire
22 interval.

23 Q. One of the wells you've chosen and
24 utilized here is a well that's actually in Texas?

25 A. That's correct.

1 Q. And the other is actually the Porter Brown
2 well, which is where the commingling takes place,
3 correct?

4 A. That's correct.

5 Q. These wells you have chosen, in your
6 opinion are they representative of the area?

7 A. Yes, they are representative.

8 Q. There's been some discussion or testimony
9 that there were horizontal wells drilled in the east
10 half of this particular acreage, correct?

11 A. Correct.

12 Q. Why did you not include those horizontal
13 wells in your cross-section?

14 A. We had one pilot hole for those four wells
15 and it only penetrated the upper 4- or 500 feet of
16 the Bone Spring. Since the Bone Spring is 3000
17 feet, I thought it best to include two wells a
18 little further away that covered the entire
19 interval.

20 Q. Okay. And in your opinion is the Bone
21 Spring formation, which is the project area being
22 approved here, is that formation continuous across
23 the entire west half area?

24 A. West half, yes.

25 Q. Now, in addition to this analysis, did you

1 also examine the structure of the Bone Spring
2 formation in the area?

3 A. I did.

4 Q. If I turn to what's been marked as Chevron
5 Exhibit No. 10 -- mine has two tabs. I hope yours
6 doesn't -- is this your structure map?

7 A. This is a Sub C structure map on the top
8 of the Bone Spring formation.

9 Q. This is a little different from what I'm
10 used to seeing. How was this structure map put
11 together? What's utilized?

12 A. This was generated using amplitude seismic
13 data.

14 Q. There's a number of colors and you show
15 what you describe as a minor fault. Can you please
16 walk us through the colors and explain what you
17 observed with regards to the structure?

18 A. This structure map, as I said, is
19 generated from seismic data. It shows we have a
20 structural depth of one to three degrees to the
21 southeast. There is a fault present in the
22 northeast side of the west half and it extends to
23 the northwest side of the east half. This fault
24 only impacts the Upper Avalon. It does not extend
25 to the Lower Avalon or the first Bone Spring unit.

1 Maximum displacement within the eastern
2 half is about 80 feet. We feel confident that this
3 fault will not impact our ability to remain in zone.
4 It did not impact our ability to remain in zone on
5 the eastern half where we previously drilled four
6 wells and we don't feel it would have an impact on
7 the western half either.

8 Q. Let's talk about the minor fault a little
9 bit. Is this the type of fault that's going to
10 impact the hydrocarbons in the Upper Avalon?

11 A. No.

12 Q. Any concern about the fault is actually
13 maintaining your drilling through; is that correct?

14 A. That's correct, we are drilling through
15 it.

16 Q. You mentioned that this same minor fault
17 exists in the Avalon on the east half project area?

18 A. Correct.

19 Q. How many wells have you successfully
20 drilled through this minor fault in the east half
21 project area?

22 A. On the eastern side we have drilled four
23 wells, two of which would have been impacted by the
24 small fault.

25 Q. Were you able to successfully drill and

1 complete the wells?

2 A. Yes, we were.

3 Q. Now, if I turn to what's been marked as
4 Chevron Exhibit No. 11, what does this particular
5 exhibit demonstrate?

6 A. This well would be the 3H well, which
7 would be on the western side of the eastern --
8 western half of the eastern half. It just is a
9 cross-section that shows our proposed well path is
10 and the amount of fault throw, the minor fault throw
11 that we have observed.

12 So I should orient you. To the left is
13 south, to the right is north. This cross-section
14 covers the entire Bone Spring interval. You can see
15 the top of the Bone Spring line is a black horizon
16 and the top of the case of the Bone Spring line/top
17 of the Wolfcamp as a yellow horizon at the bottom.

18 Q. Now, based on your study here in this
19 area, is there any concern about the continuity of
20 the reservoir across both sides of the fault?

21 A. For us, no.

22 Q. And is the company confident that it can
23 manage the drilling of the wellbores through the
24 minor fault?

25 A. Yes.

1 Q. And, in fact, has the company successfully
2 drilled wellbores through this minor fault?

3 A. Yes, two.

4 Q. And in your opinion, will the two leases
5 that comprise the west half project area contribute
6 production to the proposed wellbores in proportion
7 to their acreage contribution?

8 A. Yes.

9 Q. And in your opinion, will the approval of
10 this application be in the best interest of
11 conservation, prevention of waste and protection of
12 correlative rights?

13 A. We feel so, yes.

14 Q. Were Chevron Exhibits 9 through 11
15 prepared by you or compiled under your direction or
16 supervision?

17 A. Yes.

18 MR. FELDEWERT: Mr. Examiner, I would move
19 the admission into evidence of Chevron Exhibits 9
20 through 11.

21 HEARING EXAMINER MCMILLAN: Exhibits 9
22 through 11 may now be accepted as part of the
23 record.

24 (Note: Exhibits 9 through 11 admitted.)

25 MR. FELDEWERT: That concludes my

1 examination of the witness.

2 HEARING EXAMINER MCMILLAN: I guess I just
3 have a question about Exhibit No. 9. So essentially
4 is your prime -- are the wells in the east half
5 producing from, I'm going to call it, the upper
6 area?

7 THE WITNESS: The Upper Avalon.

8 HEARING EXAMINER MCMILLAN: And then you
9 are planning more wells in the lower red, right.

10 THE WITNESS: Yes, we are.

11 HEARING EXAMINER MCMILLAN: That's the
12 reason -- okay. I don't have any questions. Thank
13 you very much. So Case 15393 will be taken under
14 advisement. We are going to take a 15-minute break.

15 (Note: The proceedings were concluded at
16 9:20).

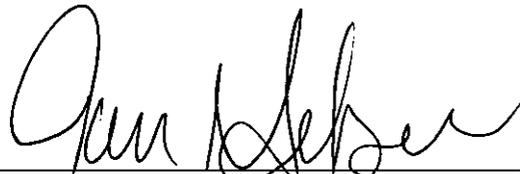
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the examiner hearing of Case No. _____
21 heard by me on _____
22 _____, Examiner
23 Oil Conservation Division
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REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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



JAN GIBSON, CCR-RPR-CRR
New Mexico CCR No. 194
License Expires: 12/31/15