

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 PRODUCTION COMPANY FOR COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 20768

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 5, 2019

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
KATHLEEN MURPHY, TECHNICAL EXAMINER  
DYLAN ROSE-COSS, TECHNICAL EXAMINER  
DANA Z. DAVID, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner; Kathleen Murphy and Dylan Rose-Coss; Technical Examiners; and Dana Z. David, Legal Examiner, on Thursday, September 5, 2019, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

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APPEARANCES

FOR APPLICANT CHEVRON PRODUCTION COMPANY:

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1 (3:35 p.m.)

2 EXAMINER JONES: Call Case 20768,  
3 application of Chevron USA, Inc. for compulsory pooling,  
4 Lea County, New Mexico.

5 Call for appearances.

6 MS. LUCK: Kaitlyn Luck, with the Santa Fe  
7 office of Holland & Hart, appearing on behalf of Chevron  
8 USA, Inc.

9 MR. BRUCE: Is this 768, Mr. Examiner?

10 EXAMINER JONES: It's 768.

11 MR. BRUCE: Jim Bruce representing  
12 ConocoPhillips Company.

13 I have no witnesses.

14 EXAMINER JONES: Do you object to --

15 MR. BRUCE: No.

16 EXAMINER JONES: Okay.

17 MS. LUCK: And I'd like to call my first  
18 witness in this case, Shalyce Holmes.

19 EXAMINER JONES: Actually, you're putting  
20 on witnesses, so he can question the witnesses.

21 Okay. Let the record show the witnesses  
22 have been sworn already.

23 SHALYCE HOLMES,

24 after having been previously sworn under oath, was  
25 questioned and testified as follows:

DIRECT EXAMINATION

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BY MS. LUCK:

Q. Please state your name, by whom you're employed and in what capacity.

A. Shalyce Holmes, Chevron, and the land representative for Lea County, New Mexico.

Q. And have you previously testified before the Division and had your credentials as an expert petroleum land person accepted and made a matter of record?

A. Yes.

Q. And are you familiar with the application filed in this case?

A. Yes.

Q. Are you familiar with the status of the lands in the subject area?

A. Yes.

MS. LUCK: So with that, I tender Ms. Holmes as an expert witness in petroleum land matters.

EXAMINER JONES: Any objection?

MR. BRUCE: No objection.

EXAMINER JONES: She's so qualified.

MS. LUCK: Thanks.

Q. (BY MS. LUCK) So please turn to Chevron Exhibit 1 and explain what Chevron seeks in this case.

1           A.    We're seeking to pool a 640-acre horizontal  
2 Bone Spring spacing unit covering the east half of  
3 Section 9 and east half of Section 16 of Township 22  
4 South, Range 33 East, Lea County, New Mexico.

5           **Q.    And what is the ownership of this acreage?**

6           A.    Section 9 is 100 percent federal, and Section  
7 16 is 100 percent state.

8           **Q.    Are there any depth severances in this acreage?**

9           A.    There are none.

10          **Q.    Please turn to Chevron Exhibit 2 and explain**  
11 **what these are.**

12          A.    These are the C-102s for the Loch Ness 16H, 17H  
13 and 18H wells.

14          **Q.    Are these wells located in the Red Tank; Bone**  
15 **Spring, East Pool, pool code 51687?**

16          A.    Yes, they are.

17                   MS. LUCK:  So that's not reflected on the  
18 C-102s yet, so I just wanted to be sure you guys had  
19 that.

20                   EXAMINER JONES:  Say that one more time.

21                   MS. LUCK:  The Red Tank; Bone Spring, East  
22 Pool.

23                   EXAMINER JONES:  Okay.  Bone Spring, East.

24                   MS. LUCK:  And it's 51687.

25                   EXAMINER JONES:  Thank you.

1 Q. (BY MS. LUCK) And will the completed interval  
2 for the 16 and the 18H wells comply with statewide  
3 setbacks?

4 A. They will.

5 Q. And the 17H well is the well that Chevron is  
6 using as the proximity tract well to pull in the  
7 additional acreage?

8 A. Yes.

9 Q. And the first and last take points are also  
10 shown on these C-102s?

11 A. Yes, they are.

12 Q. Does Chevron Exhibit Number 3 identify each of  
13 the interest owners in the spacing unit?

14 A. It does.

15 MS. LUCK: And I'd like to note -- sorry --  
16 some of these exhibits are a little bit blurry, but  
17 we've already emailed them into the Division, so  
18 hopefully you guys can review the electronic version if  
19 there is something that's unreadable. We had already  
20 just printed them when we realized that there was an  
21 error.

22 EXAMINER JONES: Where are they blurry?

23 EXAMINER MURPHY: The C-102s are great.

24 MS. LUCK: Yeah, the C-102s are great. But  
25 like Exhibit 1 and Exhibit 3, it looks like the printer

1 started running out of toner or something. So sorry  
2 about that.

3 EXAMINER JONES: Oh, yeah. A late Saturday  
4 night or something.

5 (Laughter.)

6 EXAMINER DAVID: Well, thank you. I  
7 thought it was me, so I appreciate the clarification.

8 MS. LUCK: Yeah. No. We've already  
9 emailed them into the Division, so hopefully you'll have  
10 those electronic files.

11 Q. (BY MS. LUCK) And so this lists all of the  
12 interest owners that Chevron seeks to pool, and it's the  
13 working interests, record title and overrides?

14 A. Yes.

15 Q. And were all of the interest owners you seek to  
16 pool locatable?

17 A. Yes, they were.

18 Q. What efforts have you undertaken to reach an  
19 agreement with the remaining uncommitted working  
20 interest owners?

21 A. We have sent well proposals, a JOA and our end  
22 discussions to acquire the interest of all the  
23 compulsory pooled parties.

24 Q. And so is Chevron Exhibit 4 a sample  
25 well-proposal letter, along with the AFE that was sent

1 to the interest owners for each well?

2 A. Yes.

3 Q. And are the costs on the AFE consistent with  
4 what Chevron and other operators have incurred for  
5 drilling similar horizontal wells?

6 A. Yes.

7 Q. Has Chevron made an estimate of overhead and  
8 administrative costs in this case?

9 A. Yes.

10 Q. And what is that?

11 A. 7,000 for drilling and 700 while producing.

12 Q. And will Chevron notify the Division if it  
13 reaches an agreement with any of the parties to be  
14 pooled?

15 A. Yes.

16 Q. And then finally, does Chevron request the  
17 order include a 200 percent charge for any nonconsenting  
18 parties?

19 A. Yes, we do.

20 Q. I'm sorry. One additional question: Is  
21 Chevron requesting the order in this case be expedited  
22 as well?

23 A. Yes.

24 Q. And what is the reason for that?

25 A. There is a federal 2020 expiration on the

1 lease.

2 Q. And so then finally, is Chevron Exhibit 6 an  
3 affidavit prepared by my office with attached letters  
4 providing notice of this hearing to the parties whom you  
5 seek to pool in this case?

6 A. Yes. I think it's Exhibit 5.

7 Q. And so were Exhibits 1 through 4 prepared by  
8 you or compiled under your direction and supervision?

9 A. Yes.

10 MS. LUCK: And with that, I'd move the  
11 admission of Chevron Exhibits 1 through 5.

12 EXAMINER JONES: Exhibits 1 through 5 are  
13 admitted.

14 (Chevron Production Company Exhibit Numbers  
15 1 through 5 are offered and admitted into  
16 evidence.)

17 EXAMINER JONES: So you posted newspaper  
18 notice? At least it looks kind of like a newspaper  
19 (laughter) --

20 MS. LUCK: And I apologize about that, but  
21 I promise that we did email that in. But the same  
22 reason for this case, is that we submitted the Notice of  
23 Publication because when we printed our delivery  
24 reports, it did not show that all of the notices had  
25 been delivered at that time, and so we went ahead and we

1 provided Notice of Publication as well.

2 EXAMINER JONES: Okay. That was August  
3 18th.

4 EXAMINER DAVID: I also note that the  
5 two -- apparently there are two -- two attempted  
6 deliveries here both for the BLM, so I guess they don't  
7 read their mail.

8 MS. LUCK: They don't pick it up.

9 And that's all I have for Ms. Holmes.

10 EXAMINER JONES: Okay.

11 CROSS-EXAMINATION

12 BY EXAMINER MURPHY:

13 Q. Ms. Holmes, I was turning a page so I didn't  
14 catch something. Is this a lease? Something about  
15 2020, it runs out. This is already an existing lease?

16 A. Yes, Section 9. And then Section 16 is held by  
17 production. There is no expiration, but there is an  
18 expiration on the Chevron land.

19 Q. And so -- and that is in one.

20 And in four, the working interest owners,  
21 is anybody against being pooled?

22 A. No, not to my knowledge, or in any  
23 communications with the parties, they're not against  
24 being pooled.

25 Q. Any of the working interests?

1 A. Right, any of the working interest owners.

2 CROSS-EXAMINATION

3 BY EXAMINER JONES:

4 Q. They just don't want to join? They just --  
5 they're happy to go under a compulsory pooling?

6 A. I think they'd be happy to go under the JOA  
7 that we sent. I think from a timing perspective, we  
8 wanted to get it on the docket and get a compulsory  
9 pooling started just so we don't run up against that  
10 2020 expiration. We can actually start drilling prior  
11 to the expiration.

12 Q. So you'll let us know if everybody signs  
13 tomorrow --

14 A. Yes. And the difference here --

15 Q. -- and he (indicating) can go on his trip  
16 (laughter).

17 A. The difference here from the Yeti case is that  
18 Chevron does own an interest in -- well, Chevron does  
19 not own an interest in all of the tracts in this case,  
20 so we cannot get that federal permit.

21 Q. Oh.

22 A. So until we get the compuls- --

23 Q. You can't even get the federal permit?

24 A. Correct. So until we get the compulsory  
25 pooling order, that gives us the right to drill across

1 lands that we don't have an interest in.

2 CONTINUED CROSS-EXAMINATION

3 BY EXAMINER MURPHY:

4 Q. Which is Section 16?

5 A. 16, correct.

6 Q. And 9, you have all the --

7 A. Uh-huh.

8 CONTINUED CROSS-EXAMINATION

9 BY EXAMINER JONES:

10 Q. I'm not familiar with their rules, but they  
11 won't let you have a permit?

12 A. It's because the C-102s, which we also send to  
13 them, also verify that you have an interest in each  
14 tract, and we do not own an interest in each tract.  
15 So --

16 Q. Yeah. I didn't know they paid that much  
17 attention to the C-102s. I guess they do.

18 EXAMINER COSS: I do not have any  
19 questions.

20 Q. (BY EXAMINER JONES) So basically Section 9, one  
21 of those two tracts is the 2020 expiration?

22 A. Yes. Uh-huh.

23 Q. Which one is it?

24 A. It's going to be Tract 1 -- oh, sorry. It's  
25 Tract 2.

1 Q. Tract 2.

2 Okay. And it's the same situation?

3 Overrides are -- you can --

4 A. Pool them.

5 Q. -- pool the overrides automatically yourself?

6 A. Yes.

7 Q. So we're not worried about them.

8 So it's just three working interest owners?

9 A. Yes.

10 Q. That's the only issues here. Okay.

11 EXAMINER JONES: Dana's okay with it?

12 EXAMINER DAVID: I've already done my  
13 thing.

14 MS. LUCK: Thank you.

15 With that, I'd call my next witness,  
16 Ms. Schwehr.

17 KATE SCHWEHR,

18 after having been previously sworn under oath, was  
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MS. LUCK:

22 Q. Please state your name, by whom you're employed  
23 and in what capacity.

24 A. Kate Schwehr, development geologist for  
25 Chevron.

1 Q. And have you previously testified before the  
2 Division and had your credentials as an expert  
3 petroleum -- sorry -- yeah -- an expert petroleum  
4 geologist accepted and made a matter of record?

5 A. Yes.

6 Q. And are you familiar with the application filed  
7 by Chevron in this case?

8 A. Yes.

9 Q. And have you conducted a geologic study of the  
10 Bone Spring Formation underlying the subject acreage?

11 A. Yes.

12 MS. LUCK: With that, I'd tender  
13 Ms. Schwehr as an expert witness in petroleum geology.

14 EXAMINER JONES: She is so qualified.

15 Q. (BY MS. LUCK) Okay. Ms. Schwehr, please turn  
16 to Exhibit 6 and identify what this map shows.

17 A. Exhibit 6 is the subsea structure map of the  
18 Bone Spring target interval, which we call the Lower  
19 Avalon. This map does show the location of the three  
20 proposed Bone Spring wells. Again, the contour interval  
21 is 25 feet. And this map shows that the Lower Avalon  
22 does dip slightly less than 1 degree to the  
23 east-southeast of the proposed spacing unit, which again  
24 is outlined in red.

25 Q. And turning to Chevron Exhibit 6, what does

1 **this map show? Or sorry -- 7.**

2 A. Chevron Exhibit 7 is a gross isopach thickness  
3 map of the Lower Avalon. The contour interval is 25  
4 feet, and it shows the location of the three proposed  
5 horizontal Bone Spring wells. The thickness in the  
6 Lower Avalon ranges from about 495 feet to 510 feet in  
7 Sections 9 and 10. I'd also like to point out that  
8 there are no known stratigraphic complexities, including  
9 pinch-outs or any other impediments to horizontal  
10 production.

11 **Q. Thank you.**

12 **So please turn to Chevron Exhibit 8 and**  
13 **explain what this exhibit shows.**

14 A. Chevron Exhibit 8 is a cross-section location  
15 map. This does highlight the spacing unit, which is  
16 noted by the dark blue rectangle. The three wells used  
17 in the following cross section are also noted by the red  
18 circles with the names and the API numbers posted. The  
19 wells go from A to A prime, from northwest to southeast  
20 through the spacing unit. I would also like to point  
21 out that the control points that were used to make the  
22 isopach and structure maps are also noted here.

23 **Q. And did you prepare a cross section of the**  
24 **wells noted on this map?**

25 A. Yes, I did.

1           **Q.    And do you consider these wells to be**  
2 **representative of the Bone Spring in the area near the**  
3 **proposed spacing unit?**

4           A.    Yes.

5           **Q.    So turning to Chevron Exhibit 9, explain what**  
6 **these logs show.**

7           A.    Chevron Exhibit 9, again, is the cross section  
8 with the previous noted three wells. The cross section  
9 does have tracks that include the gamma ray, neutron and  
10 density, porosity logs and the deep resistivity log.  
11 I'd like to highlight that this cross section is hung on  
12 the Lower Avalon, and we do have our two Avalon target  
13 intervals noted by the green stars. And this cross  
14 section does show that the lithology and thickness of  
15 the Lower Avalon is generally consistent throughout.

16           **Q.    And so is the Bone Spring in this area suitable**  
17 **for development by horizontal wells?**

18           A.    Yes.

19           **Q.    And is the proposed orientation of the**  
20 **horizontal wells appropriate for this area?**

21           A.    Yes.

22           **Q.    And do you expect each quarter-quarter section**  
23 **within the proposed spacing unit to contribute more or**  
24 **less equally to production from the wellbores?**

25           A.    Yes.

1           **Q.    And in your opinion, is the granting of**  
2 **Chevron's application in the best interest of**  
3 **conservation, the prevention of waste and the protection**  
4 **of correlative rights?**

5           A.    Yes.

6                         MS. LUCK:   So with that, I'd move the  
7 admission into evidence of Chevron Exhibits 7 -- 6  
8 through 9.

9                         EXAMINER JONES:   Exhibits 6 through 9 are  
10 admitted.

11                         (Chevron Production Company Exhibit Numbers  
12 6 through 9 are offered and admitted into  
13 evidence.)

14   CROSS-EXAMINATION

15 BY EXAMINER MURPHY:

16           **Q.    The Avalon generally is a shale; is that**  
17 **correct?**

18           A.    Yes.   It's sort of a mixed shale-limestone  
19 facies.

20           **Q.    So this is the Lower Avalon?**

21           A.    Yes.

22           **Q.    How much thickness is above?**

23           A.    I think it's similar.   I don't know off the top  
24 of my head, but it's probably also about 500 feet thick  
25 maybe.

1 Q. The targets in here, are they sandstones?

2 A. No. So we are targeting a mixed  
3 carbonate-shale facies.

4 Q. Thank you.

5 EXAMINER COSS: I do not have any  
6 questions.

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. The Avalon, you sometimes call it the Leonard;  
10 is that right?

11 A. It's Leonardian in age, I believe.

12 Q. Okay. So it's below the Guadalupian; is that  
13 right?

14 A. Yes, I think so.

15 Q. Way below it.

16 A. Yes.

17 Q. But there is no -- so right above this is the  
18 Brushy Canyon, is that right, or is this over in Lea  
19 County?

20 A. So above this, we have a marker we call the  
21 Bone Spring Lime. So we have Lower Avalon, Upper  
22 Avalon, Bone Spring Lime and then the Delaware Mountain  
23 Group, which does include the Brushy.

24 Q. Okay. Okay. Thanks very much.

25 A. Uh-huh.

1 MS. LUCK: If there is nothing further, I'd  
2 just ask this case be taken under advisement.

3 EXAMINER JONES: Case 20768 is taken under  
4 advisement.

5 MS. LUCK: Thank you.

6 (Case Number 20768 concludes, 3:50 p.m.)

7 EXAMINER JONES: Let's take a ten-minute  
8 break.

9 (Recess, 3:50 p.m. to 4:09 p.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 1st day of October 2019.

21

22

23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2019  
Paul Baca Professional Court Reporters

25