

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

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

Application of FAE II Operating, LLC,
for Reinstatement of Injection
Authority and Authorization to Convert
Producing Wells to Injectors for
Waterflood Operations,
Lea County, New Mexico

Case No. 22133

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

THURSDAY, SEPTEMBER 9, 2021

SANTA FE, NEW MEXICO

This matter came on for hearing before the
New Mexico Oil Conservation Division, William
Brancard, Esq. Hearing Examiner, Kurt Simmons and
Baylen Lamkin, Technical Examiner, on September 9,
2021, via Webex Virtual Conferencing Platform hosted
by New Mexico Department of Energy, Minerals and
Natural Resources

Reported by: Mary Therese Macfarlane.
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A P P E A R A N C E S

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1 (Time noted 10:45 a.m.)

2 EXAMINER BRANCARD: Okay. Let's move away from
3 compulsory pooling for a while and deal with some other
4 issues here.

5 I have next up on the agenda Cases 22133,
6 22134. I don't know if you want to handle those
7 separately or as consolidated.

8 This is FAE, II Operating, if I got that
9 right.

10 MS. HARDY: Yes. Good morning, Mr. Examiner.
11 This is Dana Hardy with the Santa Fe Office of Hinkle
12 Shanor on behalf of FAE II Operating, LLC.

13 And I think it might make sense for us to
14 present these cases separately. We'll try not to
15 duplicate, but since they involve different acreage I
16 think that would make the record more clear.

17 EXAMINER BRANCARD: Okay. Are there any other
18 interested persons for Case 22133? (Note: Pause.)

19 Hearing none, what do you have for us
20 today, Ms. Hardy?

21 MS. HARDY: Mr. Examiner, FAE applies for an
22 Order reinstating injection authority for its State "A"
23 A/C 65, 67, 69 and 71 wells within its Blackbeard North
24 Waterford project within the Seven Rivers and Queen
25 Formation, comprised of portions of Sections 5, 7, 8 and

1 9, Township 22 South, Range 36 East, in Lea County.

2 FAE also seeks to convert four of its
3 wells, the State "A" A/C 64, 68, 70 and 72, which are
4 producers to injections for waterflood operations.

5 We've provided the testimony and exhibits
6 of three witnesses in support of the application and the
7 witnesses are available today to answer questions if the
8 Division has any.

9 I'd like to provide a brief overview of the
10 project and the exhibits, if that would be helpful for the
11 Division.

12 EXAMINER BRANCARD: I think it would be. Please
13 proceed.

14 MS. HARDY Thank you.

15 To give you some background regarding the
16 project, it was initially approved in March of 1967 Via
17 Order No. R-3200, which established the project and
18 allowed six injection wells to be used for secondary
19 recovery. The project was expanded subsequently through
20 several different Orders. One was issued in 1970, that is
21 Order No. R-3200-A, and then again on September 6th of
22 1983, and then again on September 11, 1984. And those
23 Orders are numbered WFX 518 and WFX 530, respectively.

24 So most of those expansions dealt with
25 wells being converted to injection.

1 Production within the project has been
2 maintained since it was approved. FEA acquired the
3 project in June of 2021, and seeks to reinstate injection
4 authority and convert to result in a more efficient water
5 flood project.

6 The exhibits that we've provided include as
7 Exhibit A the Self-Affirmed statement of Steven Lehrbass.
8 Mr. Lehrbass is director of land at FAE. He has not
9 previously testified and has provided his CV as Exhibit
10 A-2.

11 Mr. Lehrbass' affidavit provides overview
12 and of the project and its history. He provides a plat of
13 the unit that identifies the ownership interests by tract
14 and includes the lease numbers. That's Exhibit A-3.

15 A-4 is a map of the project area that
16 depicts the injectors and procedures, and Exhibit A-5 is
17 FAE'S C-108 for these wells.

18 The Area of Review maps are provided at
19 pages 18 through 25 of the C-108, and the affected parties
20 entitled to Notice are identified on page 46.

21 We've provided the Hearing Notice Letter
22 and return receipts in Exhibit A-6, and the Notice of
23 Publication is included in Exhibit A-7.

24 We did notify all affected parties, and
25 that included New Mexico State Land Office.

1 Exhibit B is the Self-Affirmed statement of
2 Jessica LaMarro. Ms. LaMarro is a geologist with FAE and
3 has previously testified before the Division.

4 She provides a type log of the injection
5 interval as Exhibit B-1 and a structure map of the unit at
6 Exhibit B-2. Exhibits B-3 and -4 contain cross-sections
7 of the target interval within the Seven Rivers and Queen
8 Formations, and Exhibit B-5 contains a produced water
9 analysis.

10 Ms. LaMorra states in the affidavit that
11 there are no faults or geologic impediments that would
12 impede the efficiency of the project, and injection will
13 not impair any hydrocarbon-bearing zones, and that
14 injection fluids will be confined to the injection hole.

15 She also states that she does not expect
16 any water compatibility issues and no evidence of open
17 faults or hydrological connection between the injection
18 interval and underground sources of drinking water.

19 Exhibit C is the Self-Affirmed Statement of
20 Huxley Song. Mr. Song is the vice president of
21 engineering at FAE and has previously testified before the
22 Division.

23 He discusses the wellbore schematics,
24 injection pressure and perforations. He provides a
25 production graph as Exhibit C-1, and Exhibit C-2 contains

1 an incremental production and economic summary of the
2 project.

3 He concludes that FAE's proposal is
4 technically feasible and would result in increased EUR.

5 So with that I would request that the
6 witnesses be qualified as experts in their respective
7 fields, and that their exhibits are admitted. And they
8 are available for questioning by the examiners.

9 EXAMINER BRANCARD: Thank you.

10 The witnesses are qualified as experts, and
11 we have with us today as an examiner, Mr. Baylen Lamkin to
12 assist us, and I will go to Mr. Lamkin for any questions.

13 EXAMINER LAMKIN: Yeah. Thanks. I have a
14 couple of questions.

15 Is there currently any flooding going on in
16 this project at all or is this to reinstate authority for
17 this entire area.

18 MR. SONG: There's -- is my audio clear? This
19 is Harold.

20 MS. HARDY: We should probably swear in the
21 witness.

22 EXAMINER BRANCARD: We should. So you have two
23 witnesses, is that correct, or more than two?

24 MS. HARDY: I have three.

25 EXAMINER BRANCARD: I see another. Okay. So

1 everybody raise their right hands.

2 (Whereupon FAE witnesses Steven Lehrbass,
3 Huxley Song and Jessica LaMarro were duly sworn
by the Hearing Examiner.)

4 Okay. So we start with Mr. Song.

5 Could you please give your -- spell your
6 name for the record for the court reporter. Thank you.

7 THE WITNESS: Yes, sir. My name is Huxley Song
8 and that's spelled H-u-x-l-e-y, and my last name is
9 S-o-n-g.

10 EXAMINER BRANCARD: Great.

11 So is Mr. Song going to answer this
12 question, Ms. Hardy?

13 MS. HARDY: I believe so, Mr. Examiner.

14 EXAMINER BRANCARD: Okay. Please proceed.

15 MR. SONG: Yes, sir. Okay, I can take that
16 question.

17 CROSS EXAMINATION

18 BY EXAMINER LAMKIN:

19 (Note: Question found at Page 8, line 15.)

20 A. Yes. So there's been one well, the "A" A/C No.
21 2 -- 2 No. 66 -- that has maintained injection for the
22 last decade or so, a little bit over the last decade, and
23 the other eight wells that we are referencing here have
24 not had injection here recent.

25 Q. Is there a particular reason why 40 acres is not

1 seeking to unitize or create a unit with the State Land
2 Office for this waterflood project? I know it wasn't
3 initially created, but I think that was -- you know, it
4 was before we had primacy, and I don't think unitization
5 agreements were required for waterflood back then either.

6 Is there a reason why you guys aren't
7 seeking that now?

8 A. That's a great question. We actually are in the
9 process of putting together a larger unit around this
10 area, and going through the title research and acquiring
11 assets to do just that, but for now we were hoping to
12 reinstate the injection under the previous Order until we
13 can get that larger unit formed.

14 Q. Are you guys currently in discussions with the
15 State Land Office about that, or do you guys have any
16 documentation that you can provide that says that they are
17 on board with this? I know that you guys Noticed them,
18 but, you know, typically we get a Letter of
19 Acknowledgement or something from the State Land Office,
20 you know, in agreement for them to, you know, allow
21 waterflooding in a unit.

22 A. I'll let Steven take that one.

23 EXAMINER BRANCARD: Okay. Will you please
24 identify yourself, Mr. Lehrbass and spell your name.

25 WITNESS LEHRBASS: Yes, sir.

1 STEVEN LEHRBASS,

2 previously duly sworn testified as follows:

3 THE WITNESS: My name is Steven with a "v"
4 Lehrbass, L-e-h-r-b-a-s-s.

5 EXAMINER BRANCARD: Thank you. Please go ahead.

6 CROSS EXAMINATION

7 BY EXAMINER LAMKIN:

8 (Note: Question found at Page 10, line 14.)

9 A. So we've had the opportunity to reach out to
10 Scott Dawson at the State Land Office. He told us when we
11 get to a point where we are ready to actually start the
12 application process that we can have our initial area
13 investigated with them to actually go over the details
14 with a little bit more detail, but until then he said that
15 we can just pursue our operations pending our actual
16 (inaudible) effort.

17 Q. Are you guys --

18 A. He is aware of our waterflood proposal, yes.

19 Q. Are you guys planning to create two separate
20 units for -- I forget what the name of them are. The uh,
21 the north and south.

22 A. Yeah.

23 Q. Are you guys planning to create two units or are
24 you going to combine them?

25 A. I'm sorry. We are currently contemplating one

1 large unit, with any kind of input from the State Land
2 Office. We can split that up if we have to, but we are
3 currently contemplating one large unit.

4 Q. Okay. So you guys are wanting to inject water
5 in both the Seven Rivers and the Langley-Maddox, across
6 both intervals, or what is the -- I guess in the initial
7 Orders that established the Waterford, you know they were
8 two separate pools and there was allocation issues between
9 production and water flooding. I wasn't able to find
10 anything definitively that said that that issue was
11 resolved, but I guess the question would be: Has any --
12 have you guys come to any, you know, conclusive end to
13 that, or has an overriding pool been established for both
14 formations, I guess.

15 MS. LAMARRO: My name is Jessica LaMarro,
16 L-a-m-a-r-r-o. I'm a geologist.

17 CROSS EXAMINATION

18 BY MR. LAMKIN:

19 Q. (Question found at Page 12, line 4.)

20 A. What we've noticed is most of the, I guess,
21 injection interval in the northern unit, I guess the area
22 we're looking at right now, is within the -- sort of the
23 Queen Formation, which is similar to what we will be
24 seeing in our southern area that we'll be talking about
25 next, which was covered by the Langley-Maddox Pool.

1 I think the northern area is with the Seven
2 Rivers Unit, South Unit Pool, but the formations coincide.
3 So I don't think we've settled on a particular policy, but
4 they seem to be in formation, like the -- sorry.

5 The lower part of the Seven Rivers and the
6 Upper Queen seems to be the main injection interval in the
7 south, and in the north it seems to be the upper to middle
8 part of the Queen. So they correspond together.

9 So I would suggest the Langley-Maddox Pool, but
10 I don't think we've settled on that.

11 **Q. Have you guys had any discussions with the**
12 **district geologist Mr. Counts about what the pool**
13 **designation would be or anything like that?**

14 A. I have not.

15 EXAMINER BRANCARD: Ma'am, if you could just
16 gets a little closer to the microphone that would be
17 helpful, too.

18 THE WITNESS: I'm so sorry.

19 A. (Continued) I have not had a discussion with
20 him yet.

21 I think one thing to note here is that the
22 injection interval will be the exact interval that has
23 been produced by these exact wells in the area. So the
24 formations that are produced into the wells in the past
25 will be the exact injection interval, so we are not

1 opening up anything new, not going any deeper, not going
2 any shallower, just using the existing perforation,
3 existing pool, existing formation, and we will do our
4 injection within that interval.

5 FURTHER CROSS-EXAMINATION OF HUXLEY SONG
6 BY EXAMINER LAMKIN:

7 Q. In the initial Order it says that the
8 waterflooding fluid was going to be provided by Chevron
9 from the Capitan Reef. What formation sources are you
10 guys planning on using for when you re-establish the flood
11 Is it going to continue to be the same source or do you
12 guys have production water you're going to reinject?
13 What's the plan?

14 A. Yes, we will use production water from the
15 exact-same formations that we will be injecting to but a
16 little bit down dip.

17 EXAMINER LAMKIN: I believe that covered all the
18 questions that I had initially. If I come up with
19 anything else over the course of reviewing the material
20 then I'll reach out and let you guys know.

21 THE WITNESS: Okay. Sounds good. Thank you.

22 EXAMINER BRANCARD: Thank you. Mr. Simmons, do
23 you have any other questions?

24 EXAMINER SIMMONS: No, I'm good with letting
25 Baylen take the lead on that. Thank you

1 EXAMINER BRANCARD: Thank you.

2 So Ms. Hardy, is that it for the
3 presentation on this?

4 MS. HARDY: That's it for my presentation. I
5 would just request that the case be taken under
6 advisement.

7 EXAMINER BRANCARD: All right. Okay. Thank you.
8 So the exhibits will be admitted into the record.

9 Are there any other persons interested in
10 Case 22133?

11 Hearing none, we will take this case under
12 advisement. But as Mr. Lamkin noted, in cases like this
13 we often like to get back in touch with the Applicant if
14 we have some concerns or need further information, if that
15 is okay.

16 MS. HARDY: Yes. Thank you.

17 WITNESS SONG: Absolutely.

18 EXAMINER BRANCARD: Thank you.

19 (Time noted 11:02 a.m.)

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1 STATE OF NEW MEXICO)

2 : ss

3 COUNTY OF TAOS)

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5 REPORTER'S CERTIFICATE

6 I, MARY THERESE Macfarlane, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday,
8 September 9, 2021, the proceedings in the above-captioned
9 matter were taken before me; that I did report in
10 stenographic shorthand the proceedings set forth herein,
11 and the foregoing pages are a true and correct
12 transcription to the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18

/s/ Mary Macfarlane

19

20

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