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STATE OF NEW MEXICO  
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
APPLICATION OF FAE II OPERATING, LLC  
FOR APPROVAL OF AN ENHANCED OIL  
RECOVERY PROJECT AND TO QUALLIFY THE  
PROJECT FOR THE RECOVERED OIL TAX RATE,  
LEA COUNTY, NEW MEXICO CASE NO. 24605  
APPLICATION OF FAE II OPERATING, LLC,  
FOR STATUTORY UNITIZATION,  
LEA COUNTY, NEW MEXICO CASE NO. 24606

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
THURSDAY, AUGUST 29, 2024  
8:30 A.M.  
EXAMINER HEARING

Reported by: Mary Therese Macfarlane, NM CCR No. 122

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VIDEOCONFERENCE HEARING

DATE: Thursday, August 29, 2024  
TIME: 8:30 A.M.  
HEARING EXAMINER: Gregory A. Chakalian  
LOCATION: Pecos Hall  
Wendell Chino Building  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

A P P E A R A N C E S

FOR FAE OPERATING II, LLC:  
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I N D E X O F E X H I B I T S

(NOTE: EXHIBIT PAGE OR EXHIBIT NUMBER REFERENCES IN  
TRANSCRIPT DO NOT ALWAYS CONFORM TO RESUBMITTED EXHIBIT.)

EXHIBIT NO.		ADMITTED
Exhibit A	Self-Affirmed Statement of Joseph Kent	11
Exhibit A-1	CV of Joseph Kent	11
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Exhibit A-3	Plat of Tracts, Tract Ownership, Pooled Party, Tract Participation	11
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1 EXAMINER CHAKALIAN: This is a special docket of  
2 the Oil Conservation Division. We are here in Case Nos.  
3 24605, 24606. They are Applications from FAE II  
4 Operating, LLC, for approval of an Enhanced Oil Recovery  
5 Project and to qualify the project for that recovered oil  
6 tax rate in Lea County, New Mexico.

7 Parties enter an appearance?

8 MR. PADILLA: Mr. Examiner, Ernest Padilla for  
9 FAE Operating, LLC.

10 EXAMINER CHAKALIAN: Good morning.

11 I do see a Notice of Withdrawal of Objection  
12 filed by OXY, Counsel for OXY Michael Feldewert.

13 So we will proceed with the understanding that  
14 he has not only withdrawn his objection but withdrawn his  
15 entry of appearance. If he comes in to ask questions,  
16 well, we will deal with that at that time.

17 So, Mr. Padilla, do you have your witnesses  
18 available?

19 MR. PADILLA: Yes, I do, Mr. Examiner. They are  
20 on camera.

21 And the three witnesses that we will be calling  
22 would be Joseph Kent, landman, Charles Hooper, geologist,  
23 and Vanessa Neal, reservoir engineer. All three witnesses  
24 testified in the (inaudible) trial unit hearing for  
25 statutory unitization cases, and they've been qualified as

1 experts in that case, so I believe that will they  
2 qualified to testify in this case, as well, since it's a  
3 similar type of statutory unitization case.

4 EXAMINER CHAKALIAN: Let's go over each witness,  
5 Mr. Padilla, to make sure.

6 Mr. Hooper. What field was Mr. Hooper qualified  
7 as an expert for this Division?

8 MR. PADILLA: Mr. Hooper was qualified as a  
9 geologist.

10 EXAMINER CHAKALIAN: A geologist. Okay.  
11 And what about Ms. Neal?

12 MR. PADILLA: Ms. Neal was qualified as a  
13 reservoir engineer.

14 EXAMINER CHAKALIAN: And you said there were  
15 three witnesses, but in your exhibits I don't see the  
16 third witness.

17 MR. PADILLA: The third is Joseph Kent, and he's  
18 the landman and pretty much the project manager for this  
19 statutory unitization.

20 EXAMINER CHAKALIAN: Are any of the exhibits  
21 that you filed in these cases from him?

22 MR. PADILLA: Yes. His Self-Affirming Statement  
23 is -- God, this is a huge file. (Note: Pause.)

24 EXAMINER CHAKALIAN: Did you say his name was  
25 Mr. Kent?

1 MR. PADILLA: Yes.

2 EXAMINER CHAKALIAN: How do you -- Mr. Kent, how  
3 do you spell your name?

4 THE WITNESS: First name is J-o-s-e-p-h, last  
5 name is Kent, K-e-n-t.

6 EXAMINER CHAKALIAN: Mr. Kent, thank you.

7 Mr. Padilla, I don't see a Self-Affirmed  
8 Statement from Mr. Kent in your hearing exhibits. Can you  
9 direct me to it?

10 MR. PADILLA: Yes, Mr. Examiner. The  
11 Self-Affirmed Statement of Mr. Kent should be at Bates No.  
12 A1-3. So it's pretty much near the beginning of the  
13 packet.

14 EXAMINER CHAKALIAN: Okay. I see you listed it  
15 as Exhibit A-8 here on the document and in your Table of  
16 Contents, A-8.

17 There is no -- there's nothing after A-3.

18 What's the matter with your Table of Contents?

19 MR. PADILLA: Mr. Examiner, it does not list --  
20 the Table of Contents does not list, for some reason or  
21 other, Mr. Kent's Self-Affirmed Statement, but it's  
22 included in here. I was reviewing that this morning when  
23 we -- if you -- I have, at page, our page -- oh, this  
24 would be on Case No. 24606.

25 EXAMINER CHAKALIAN: Okay. I'm looking at -- to

1 begin this hearing I'm looking at the exhibits filed in  
2 24605. I'll get to -06 in just a minute, but would you  
3 look at the document that you filed with the OCD as a  
4 56-page document.

5 MR. PADILLA: That is the application for the  
6 tax treatment, and Mr. Kent is not in that case.

7 EXAMINER CHAKALIAN: Okay.

8 MR. PADILLA: But the statutory unitization case  
9 should be heard first because it's -- the approval of that  
10 case will, uh, then trigger the tax qualification.

11 EXAMINER CHAKALIAN: So are you suggesting,  
12 then, that 24605 is just -- is a case that is specifically  
13 restricted to the recovered oil tax rate?

14 MR. PADILLA: That's correct. And the only two  
15 witnesses that are necessary for that are the geologist  
16 and the reservoir engineer.

17 EXAMINER CHAKALIAN: Let me switch gears. Let  
18 me go to the other case number. (Note: Pause.)

19 Okay. I'm in 24606 now, and let's take a look  
20 at this exhibit packet.

21 This exhibit packet is 859 pages long, and I  
22 have a Table of Contents here that stretches A to A-9, B  
23 to B-6, C to C-4, and then your Self-Affirmed Statement.

24 Okay. Now I understand why I didn't have what I  
25 needed. Okay.

1 I do see Mr. Kent. However, I did see Mr.  
2 Kent's in the other, in Case No. 24605, so if his  
3 Self-Affirmed Statement should not be there, it looks like  
4 you'll have to submit a revised exhibit packet to correct.

5 If you go to No. 15 of 56, it has the affidavit  
6 of Joseph Kent regarding notice of unit interest owners in  
7 support of both case numbers. So is this document not  
8 supposed to be there?

9 MR. PADILLA: It's supposed to be there, Mr.  
10 Examiner. Simply because of the volume of Notices that we  
11 had to send out FAE made the Notices instead of us,  
12 instead of this law firm that.

13 So his affidavit in there for Notice on that  
14 case is necessary because, uhm --

15 EXAMINER CHAKALIAN: Okay. Well, it's listed  
16 here as Exhibit A-8 and it's not on your Table of  
17 Contents, so one way or another something needs to be  
18 fixed.

19 MR. PADILLA: Okay. I get it. Exhibit 8-A is  
20 our Bate No. Exhibit A-2-13. And the only reason that's  
21 in there is because -- for notice purposes that we've  
22 notified these people for this hearing.

23 EXAMINER CHAKALIAN: So, in other words, in your  
24 Table of Contents where it says Exhibit A-2 it should say  
25 Affidavit of Notice of Joseph Kent.

1 MR. PADILLA: Correct.

2 EXAMINER CHAKALIAN: So then marking it Exhibit  
3 A-8 is just confusing, but it's -- you're saying that it's  
4 actually Exhibit A-2.

5 MR. PADILLA: Yes.

6 EXAMINER CHAKALIAN: I think the way your  
7 documents are marked is just very confusing for me. I  
8 mean, I'm looking at -- for example, if you go to page 10,  
9 just for example, up on the top of page 10 it says page 10  
10 of 56, which looks correct. Then it says page 8 of 130.  
11 I don't know what that means or where that comes from.

12 Down below it says it's Exhibit A-8, and yet is  
13 it really Exhibit A-8? Because you don't have A-8 in the  
14 Table of Contents.

15 So this document has to be corrected at the end  
16 of our hearing. It's not a fatal flaw but I'm not going  
17 to accept this exhibit marked the way it is, because it is  
18 just way too confusing to anybody who reviews this case.

19 MR. PADILLA: You're talking about Case 24605,  
20 right?

21 EXAMINER CHAKALIAN: I am.

22 MR. PADILLA: Okay.

23 EXAMINER CHAKALIAN: So we'll get to there,  
24 we'll get to that at the end of this hearing, but let's go  
25 back to the enormous document that you submitted for Case

1 No. 24606.

2 So, first of all, do you want to offer this  
3 document into evidence?

4 MR. PADILLA: Yes, Mr. Examiner. I'd like to  
5 offer the exhibit packet with the caveat that we have to  
6 correct that, but the contents of the packet. Other than  
7 the confusion that you have noted, we'd like to offer the  
8 exhibit packet for Case 24605 and Case 24606.

9 EXAMINER CHAKALIAN: Okay. Are there any  
10 objections. (Note: Pause.)

11 Not hearing any, your exhibits are admitted in  
12 both cases into evidence.

13 Let's get your witnesses sworn in. I'm going to  
14 ask you to make a brief opening statement. Let's have an  
15 opening statement just for 24606. We can have an opening  
16 statement for 24605 when we get there.

17 Witnesses, would you please raise your right  
18 hand.

19 (Note: Whereupon Joseph Kent, Vanessa Neal, and  
20 Charles Hooper were duly sworn by Examiner  
21 Chakalian.)

22 EXAMINER CHAKALIAN: I would like each of you to  
23 state your name then spell it for the record.

24 MR. KENT: Does it matter which one of us goes  
25 first?

1 EXAMINER CHAKALIAN: It doesn't matter.

2 MR. KENT: Okay. I'll go first.

3 My name is Joseph Kent. J-o-s-e-p-h, last name  
4 Kent, K-e-n-t.

5 EXAMINER CHAKALIAN: Thank you.

6 MR. KENT: I'm the Director of Land for Forty  
7 Acres Energy.

8 EXAMINER CHAKALIAN: Thank you.

9 MS. NEAL: My name is Vanessa Neal,  
10 V-a-n-e-s-s-a, Neal, N-e-a-l.

11 EXAMINER CHAKALIAN: And you're here for what  
12 reason?

13 MS. NEAL: I'm the reservoir engineer for Forty  
14 Acres Energy.

15 EXAMINER CHAKALIAN: Okay. Thank you.

16 MR. HOOPER: And my name is Charles Hooper.  
17 C-h-a-r-l-e-s Hooper, H-o-o-p-e-r. And I'm a geologist  
18 for Forty Acres.

19 EXAMINER CHAKALIAN: And it's my understanding  
20 that all three of you have been qualified as experts in  
21 your field of study and expertise by this Division  
22 previously. Is that correct?

23 MR. KENT: That's correct. (Note: Ms. Neal and  
24 Mr. Hooper nodded affirmatively.)

25 EXAMINER CHAKALIAN: Very good. Okay. Let's

1 turn to Mr. Padilla.

2 Would you make a brief opening statement before  
3 I turn to our technical examiners.

4 MR. PADILLA: Mr. Examiner, this case is a  
5 statutory unitization case, the 24606 case, and the other  
6 case ending in -605 is for the enhanced oil recovery,  
7 which is for tax treatment.

8 But the purpose of this unitization is to  
9 qualify, uh, essentially force unitize -- let's see. I'm  
10 trying to get the acreage here. I think it's roughly 3600  
11 acres.

12 The Applicant has obtained the consent of more  
13 than 75 percent of all working interest owners, so we have  
14 met that threshold. Mr. Kent can testify further on that  
15 if he is asked about the exact number.

16 As far as -- OXY had originally filed a protest,  
17 but I'm pretty sure that FAE has purchased their interest,  
18 so there are no persons who are, or companies or working  
19 interest owners that are opposed to the application at  
20 this time.

21 The unit will -- the vertical limits will cover  
22 the Yates Seven Rivers/Queen Formations, and it's just  
23 essentially a continuation of the existing unit but with  
24 forced unitization at this time through the Statutory  
25 Unitization Act.

1           Once that's approved then the qualification for  
2 the tax rate is going to just come along, but the  
3 applications for tax rate has to be made.

4           And so that's essentially the case. I'm sure  
5 that Mr. Kent, Mr. Hooper and Ms. Neal can explain further  
6 as to how the unit will be operated, and certainly the  
7 operator is going to be FAE Operating, which is now the  
8 unit operator. But we now have -- we're not leaving any  
9 holes in the middle of the unit.

10           So that's the purpose of statutory unitization.

11           EXAMINER CHAKALIAN: Thank you, Mr. Padilla.

12           Let's turn to our technical examiner. Who is  
13 going to be asking questions?

14           Whoever it is, I can't hear you. Would you turn  
15 on your microphone?

16           MR. GEBREMICHAEL: Mr. Examiner, I'll be asking  
17 first.

18           MR. GOETZE: Mr. Hearing Examiner --  
19 May I inter -- may I interview first?

20           MR. GEBREMICHAEL: Yes.

21           MR. GOETZE: Typically these are interlocked,  
22 the statutory declaration in this case, along with the  
23 second case which establishes the injection. I would  
24 recommend that he go through, that FAE present both of  
25 them, because they will overlap, and they will not be --

1 it will be easier to discuss the action as a combined --  
2 the two cases together, and we won't be going back and  
3 forth.

4 So I would recommend we proceed to the second.  
5 And typically, again, we have the one Order, the statutory  
6 authorization which puts together the unit and encumbers  
7 all the acreage in the project area and the obligations  
8 and the agreement; and then the second case clarifies the  
9 technical aspects with regards to what wells are going to  
10 be used for the injection, the patterns, those sort of  
11 things.

12 But I think it would probably simplify if we go  
13 ahead and let Mr. Padilla and FAE proceed with presenting  
14 also the second case, and then we can ask questions about  
15 both consistently. Okay?

16 EXAMINER CHAKALIAN: Okay, Mr. Goetze.

17 The exhibits have been admitted into evidence in  
18 both cases, and Mr. Padilla's opening statement basically  
19 referred to both cases, as well. So are you asking the  
20 questions at first or is Mr. Gebremichael asking the first  
21 questions?

22 MR. GOETZE: Mr. Gebremichael will be the first  
23 person in line to ask questions. So we will be asking  
24 about both cases.

25 MR. CHAKALIAN: Okay. That's perfect.

1           Mr. Gebremichael, I'd like you to tell me  
2 whether you want the witnesses to appear as a panel, and  
3 you can just ask your question and the best witness can  
4 answer it, or do you want to ask specific questions to  
5 specific witnesses?

6           MR. GEBREMICHAEL: Well, I think I can present  
7 my questions as a panel. That's my --

8           EXAMINER CHAKALIAN: Okay. Very Good.

9           Mr. Padilla, do you consent to your witnesses  
10 appearing as a panel?

11          MR. PADILLA: Yes. Of course. I think that  
12 makes sense.

13          EXAMINER CHAKALIAN: Okay. Good.

14          Witnesses, when Mr. Gebremichael asks a  
15 question, please decide amongst yourselves who's going to  
16 answer that question, then one person speak clearly and  
17 loudly so that the court reporter can pick up exactly what  
18 you're saying.

19          (Note: Reporter inquiry).

20          EXAMINER CHAKALIAN: That's a good idea. So  
21 when the witness decides who will speak, please state your  
22 name and then answer the question.

23          Okay. Mr. Gebremichael, please proceed.

24          MR. GEBREMICHAEL: Yes.

25          My first question will be to the panel is: Just

1 from the outset OCD decides that this application will be  
2 limited to the secondary recovery, because of the  
3 application was presented both for secondary recovery and  
4 tertiary recovery. As the tertiary recovery requires a  
5 different set of conditional approvals, we can only  
6 proceed approving for secondary recovery.

7 And the panel could -- you know, we'd like to  
8 know we're on the same page on this one just from the  
9 outset.

10 EXAMINATION

11 BY MR. GEBREMICHAEL:

12 Q. My first question to the panel would be: Forty  
13 Acres, so a voluntary unitization agreement. I'm  
14 referring to Exhibit A-8 if I could direct your attention  
15 to that one.

16 Out of those agreements you acquired, what is  
17 it, 87 percent, and then four of them, they granted you  
18 their permission. Can you name those four interest  
19 owners?

20 A. (MR. KENT) Let's see. I can't name them  
21 specifically off the top of my head. I can pull them up  
22 real quick if you would like.

23 EXAMINER CHAKALIAN: Mr. Kent, you have to say  
24 your name first.

25 MR. KENT: My apologies. Joe Kent.

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1           A.     (Continued) And I don't have the specific names  
2 in front of me but I can pull them up, if you would like.

3           Q.     Yes, please.

4           A.     And you're looking for -- sorry, Joe Kent again.  
5 You're looking for the names of the working interest  
6 parties that have voluntarily ratified in joinder?

7           Q.     Yes, sir.

8           A.     Okay.

9           Q.     I mean, that's that the four volunteers that I  
10 read constitute that 87 percent of that is specified,  
11 right?

12          A.     Correct.

13          Q.     Okay. 81 percent that is. Sorry.

14          A.     So the name of these parties are Debbie  
15 Childress, Russell T. Rudy Energy, Tritext Corporation,  
16 and Citation Oil & Gas. And the caveat with Citation Oil  
17 & Gas is that they have ratified the unit but they have  
18 not formally elected to participate in the unit. That  
19 election will come subsequent to NMOCD approving the unit  
20 in an OCD Order.

21          Q.     So you have only three consenting parties, then,  
22 not four.

23          A.     Well, four consenting to the unit, three  
24 formally electing to participate with costs.

25          Q.     So how did you arrive at that percentage, the

1 81.73 percentage? Was that based on their holdings or --

2 A. That is correct.

3 Q. Okay. Based on their holdings. Thank you.

4 My next question is, if I may direct your  
5 attention to Exhibit A-3, which is page 6 of 56.

6 You noted that the fracture gradient is .25 psi  
7 per foot. How did you arrive at this figure?

8 MS. NEAL: This is Vanessa.

9 A. (MS. NEAL) This is a standard fracture gradient  
10 that we have used to calculate injection pressure in this  
11 area, and it's something that we apply both to the South  
12 Jal unit as well as the Lusk and (inaudible) unit, that  
13 Forty Acres I operates.

14 Q. You know that the State of New Mexico OCD by  
15 default it's .22 (sic) psi per foot, not 2.5 (sic).

16 A. I understand that, and I would expect if you all  
17 want to use that standard that you would dictate so in  
18 your Orders.

19 Q. Yes. Because the only thing you could change in  
20 that one is if you perform SRT (phonetic) and then apply  
21 for ITI.

22 A. Understood.

23 Q. So you would be required to lower it to .2 psi  
24 per foot in your calculation for the surface injection  
25 pressure.

1 A. Okay.

2 Q. All right. My next question would be Exhibit  
3 B-27 -- if I may direct your attention to B-27, which is  
4 page 29 of 56.

5 Your unitized interval is based on geological  
6 markers and it is noted as between 2879 to 3691 feet. Am  
7 I right?

8 A. (MR. HOOPER) This is Charles Hooper. Yes,  
9 you're correct.

10 Q. Yes. However, some of your proposed new drills  
11 they span from 3430 to 3730. That makes it out of the  
12 range of the unitized interval, so you would be required  
13 to adjust either your request for unitized interval, the  
14 range, or your wells, and you need to back it up with  
15 logs, because if we let you go with that well, for  
16 instance, you are out of the range by about 40 feet.

17 A. The unitized interval is as is defined by the  
18 Langlie Jal Unit No. 17 well, and the wells, the depths  
19 that we proposed are within the stratigraphic equivalents  
20 of that Langlie Jal Unit No. 17 well.

21 So we are remaining within the Seven Rivers and  
22 Queen Formation; however, the structural tops of those  
23 move up and down within the unit area.

24 Q. Yes. Then don't you think that unitized  
25 interval should accommodate any well? It has to be in

1 that range?

2 A. Yes. Maybe -- should we include language that  
3 specifies the stratigraphic --

4 EXAMINER CHAKALIAN: Okay. Let's stop. Hold  
5 on. Hold on. Let's stop. The witnesses don't ask  
6 questions, and the OCD does not provide guidance during a  
7 hearing. So let's just have questions and answers and  
8 let's not have any more guidance from OCD and questions  
9 from witnesses.

10 So Mr. Gebremichael, would you like to continue?

11 MR. GEBREMICHAEL: Yes. We would like you to --  
12 just to reaffirm, we would like you to address the  
13 unitized interval to accommodate the interval of the  
14 wells. That's my question.

15 Q. My next question is going to be Exhibit B-6A.

16 I didn't see the base of the USDW, and then I  
17 know you mentioned the top of the Rustler. I don't see  
18 the basement of the Rustler, and we would like to know,  
19 uh, the surface casing setting depth in relation to the  
20 basement of USDW.

21 Or just let me summarize that. We would like to  
22 know whether your casing, your surface casing is going to  
23 cover the entire USDW.

24 A. This is Charles Hooper. Yes, it will. That's a  
25 standard practice for us.

1 Q. So what is the basement of the USDW. You  
2 haven't mentioned it in your application. Can you tell  
3 us?

4 A. I would need to go look that up. I don't know  
5 that number off the top of my head.

6 MR. CHAKALIAN: Okay. Well, hold on. Hold on.  
7 Let's take a five-minute break so you can go get the  
8 information to answer the question, and we will come back  
9 on the record. It's 9:00 o'clock now. We will come back  
10 on the record at 9:05. Will that give you enough time to  
11 look up the information?

12 MR. HOOPER: The Rustler Formation top, yes.

13 MR. GEBREMICHAEL: And bottom. Not top. The  
14 bottom.

15 MR. HOOPER: Yes. Yes.

16 EXAMINER CHAKALIAN: Okay. We will come back on  
17 the record at 9:05. Thank you.

18 (Note: In recess from 9:00 a.m. to 9:05 a.m.)

19 EXAMINER CHAKALIAN: Please state your name and  
20 give the answer to the previous question.

21 A. (MR. HOOPER) Yes. It's Charles Hooper,  
22 geologist. And the Rustler Formation top in the unit area  
23 is roughly 1060 feet, and the base of the Rustler is  
24 approximately 1,240 feet.

25 EXAMINER CHAKALIAN: Thank you.

1 MR. GEBREMICHAEL: Mr. Examiner, I'm done with  
2 my questions.

3 EXAMINER CHAKALIAN: And you're done with your  
4 questions for both cases, or just one?

5 MR. GEBREMICHAEL: For both cases.

6 EXAMINER CHAKALIAN: Very good. Thank you.

7 MR. PADILLA: Mr. Examiner, before, uh, Mr.  
8 Gebremichael brought up the issue of approval of  
9 waterflood and tertiary recovery. And I'm trying to grasp  
10 whether we need to supplement our filing or, uh --

11 EXAMINER CHAKALIAN. I understand.

12 We're going to get to that at the end. At the  
13 end of the questions the Division will discuss with you  
14 and the witnesses what other information it may need or  
15 what different information it may need, and we'll spell it  
16 out for you so that you're clear.

17 MR. PADILLA: Okay. Thank you.

18 MR. CHAKALIAN: But this point in the hearing  
19 we're just asking questions and receiving evidence that is  
20 relevant and reliable, so let's not cloud that part with  
21 advice and requests.

22 MR. PADILLA: Thank you.

23 EXAMINER CHAKALIAN: You're welcome.

24 So Mr. Gebremichael, if you're finished with  
25 your questions I'll now turn to Mr. Goetze.

1 MR. GOETZE: Thank you, Mr. Examiner, and good  
2 morning, folks.

3 The first request I have is we have a series of  
4 water samples that were taken, and they are included  
5 within the hearing packet for Case 24606, Exhibit B-6-37.

6 If you would, please, since these wells, I  
7 assume, are registered through the State Engineer's  
8 office, you would provide subsequent to this hearing a POD  
9 number, a Point of Diversion that the State Engineer  
10 issues for these locations which you provided as fresh  
11 water samples. We make this request because this data  
12 goes into a state data base and that is one of the things  
13 they use as correlations.

14 So I make that request to you.

15 EXAMINER CHAKALIAN: Mr. Goetze, do you have any  
16 questions for the witnesses?

17 MR. GOETZE: Yes, we do.

18 EXAMINER CHAKALIAN: Okay.

19 EXAMINATION

20 BY MR. GOETZE:

21 Q. First question. We note in both applications  
22 that there is a statement to which both the Bureau of Land  
23 Management and the New Mexico State Land Office have been  
24 provided copies of this application. Do you have any  
25 updates as to the status of their providing a preliminary

1 approval for this hearing?

2 A. (MR. KENT) Yes, Mr. Goetze. This is Joe Kent,  
3 the landman.

4 We have received both pre-approvals for the BLM  
5 and the State Land Office. Those are submitted as  
6 Exhibits in the 24606 case as Exhibits -- let's see. That  
7 being Exhibits A-649 through 674, along with the other  
8 return ratifications.

9 Q. Thank you very much.

10 Second question just for the benefit of  
11 processing: Is FAE currently under an ACOI agreement, an  
12 Inactive Well Agreement, or have we cleared that cloud  
13 just for the benefit of us doing the review?

14 A. Yes, Mr. Goetze. This is Joe Kent. My  
15 understanding is that we're not under any ACOI or anything  
16 like that, or an Inactive Well List.

17 Q. Thank you very much. Let's see. I have one  
18 last question.

19 Typically when we have a waterflood like this in  
20 the middle of other waterfloods, uh, the consideration for  
21 correlative rights and your waterfloods adjacent to you,  
22 uh, is there -- I don't see any discussion as to -- is  
23 there any agreement; is there a plan in your operation;  
24 how do you plan to address making sure that your operation  
25 does not impact the adjacent waterfloods?

1           A.     (MS. NEAL) This is Vanessa. We have included  
2 that consideration in our development plan. We intend to  
3 have like a line of producers on the outside -- or not on  
4 the outside, on the internal edge of the unit to protect  
5 correlative rights of the outside operators, the  
6 surrounding operators.

7           Q.     You have actually had a discussion with your  
8 fellow operators in the adjacent waterfloods?

9           A.     No.

10           MR. GOETZE: Okay. Mr. Examiner, those are all  
11 the questions I have. Thank you.

12           EXAMINER CHAKALIAN: Okay. Mr. Goetze, I see  
13 Mr. Harris with us. Does he have questions?

14           MR. GOETZE: Mr. Harris is here to watch, along  
15 with Ms. Stacy Sandoval, who are both members of the UIC  
16 Group. So this is on-the-job training.

17           EXAMINER CHAKALIAN: All right. Mr. Padilla, do  
18 you have any redirect based on the questions that were  
19 asked.

20           MR. PADILLA: The only redirect I have is -- no,  
21 I don't have any redirect, other than wanting to clarify  
22 whether we have to expand or submit additional  
23 information.

24           EXAMINER CHAKALIAN: Okay. I understand.

25           Well, then the questions have been asked. Are

1 there any other parties that I might not know about that  
2 have questions for these witnesses?

3 Not hearing any, the evidentiary record is  
4 closed in both cases.

5 And Mr. Padilla, you and I have spoken now about  
6 resubmitting your exhibit packet for 24605 to correctly  
7 mark your exhibits and to correct your Table of Contents.  
8 Is there any question on that aspect?

9 MR. PADILLA: No. No, Mr. Examiner. I  
10 understand.

11 EXAMINER CHAKALIAN: Okay. When will you be  
12 doing that?

13 MR. PADILLA: I can do it by Wednesday of next  
14 week.

15 EXAMINER CHAKALIAN: Let me look at the date.  
16 That would be September 4th. So we will note on our  
17 calendars here in the hearing division that you have until  
18 September 4th to submit an amended exhibit packet for Case  
19 No. 24605. Please include a cover letter to explain why  
20 you are submitting it, and then we will be removing this  
21 exhibit packet from this case number.

22 MR. PADILLA: Okay.

23 EXAMINER CHAKALIAN: Okay. Now Mr. Padilla  
24 needs clarification from the UIC group on what additional  
25 information it needs.

1           So Mr. Goetze or Mr. Gebremichael, who is going  
2 to advise him?

3           MR. GOETZE: I'll take the Leap of Faith.

4           This is Mr. Goetze, UIC manager.

5           If we're going to go to a tertiary phase that  
6 involves the use of either produced gas or carbon dioxide,  
7 we will have to supplement this with an additional  
8 application.

9           This project was not assessed on the use of a  
10 gas component, it was purely assessed on the use of  
11 produced water to be injected. The requirements for  
12 injection of gas are more detailed. We do need to have a  
13 discussion about what you have as a component, as we do as  
14 far as how much gas you're putting in, what type of  
15 operation, if it's water alternating gas. So clarity of  
16 operation would be required, more information on the wells  
17 that you're going to propose for injection, and of course  
18 I would recommend that you take a look at the approval for  
19 the Hobbs, North Hobbs/South Hobbs pressure maintenance in  
20 waterflood, since these are both water alternating gas.  
21 The criteria for monitoring, the criteria for construction  
22 are much higher, and this is the standard that we use when  
23 considering the use of gas with water as part of the  
24 waterflood operation.

25           So at this point we would not feel comfortable,

1 and we did not prepare for adding the waterflood unit as  
2 having the capacity and approval for injection of gas  
3 also.

4 So I would ask that you provide a second  
5 application if you plan to move into that phase, and at  
6 that time we can assess the waterflood and the criteria of  
7 having gas used as part of the injection process.

8 End of speech.

9 EXAMINER CHAKALIAN: Let me turn to Mr. Padilla.  
10 Does that resolve your questions?

11 MR. PADILLA: Uh, yes, Mr. Examiner, it resolves  
12 the questions for me, unless one of the witnesses wants to  
13 ask further clarification. But I think it's clear that we  
14 have to file a second applications if gas injection is  
15 going to occur.

16 EXAMINER CHAKALIAN: Mr. Kent, Did you have a  
17 question?

18 MR. KENT: Yes. This is Joseph Kent.

19 Is the second application requesting approval  
20 for a tertiary operation, is that done administratively  
21 through a new hearing process or is that simply a vote of  
22 the working interest parties with the submittal of an  
23 application?

24 Can you shed some more light on that process?

25 MR. GOETZE: Uh, I would suggest through

1 hearing. We don't have an administrative -- the leap is  
2 so dramatic and the liabilities are so different,  
3 especially since the history of the Hobbs units. We've  
4 had well ends blown off, we've had contamination of ground  
5 water. So the level of information -- this is not just  
6 approving a well, this is approving an entire operation,  
7 and, you know, you're going to be looking at how this also  
8 impacts your adjacent operators.

9 So I think the level of what you're asking is  
10 outside the realm of just an administrative approval.

11 MR. KENT: Sounds good. Thank you, Mr. Goetze.

12 MR. GOETZE: Especially if you folks are going  
13 to also claim tax credits, because that's the other thing  
14 that the EPA has made clear to us: If you start going  
15 after the carbon sequestration and tax credits with a Co2  
16 injection as part of your tertiary recovery we need to  
17 have that in a very defined record. Thank you.

18 MR. KENT: Understood.

19 EXAMINER CHAKALIAN: Are there any other  
20 questions before we conclude this hearing?

21 MR. PADILLA: Mr. Examiner, I don't have any  
22 questions.

23 THE HEARING OFFICER: Okay. So let me  
24 understand something. It sounds like you're going to be  
25 submitting a new application. Is that right, Mr. Padilla?

1 MR. PADILLA: I'd have to confer with my client,  
2 but I think probably yes.

3 EXAMINER CHAKALIAN: Would it be submitted into  
4 this case number or are we going to be giving it a new  
5 case number?

6 MR. PADILLA: I think it would be a new case  
7 number, a new application.

8 MR. CHAKALIAN: I see. Okay.

9 So Mr. Goetze, when we conclude today's hearing,  
10 how do we proceed with this case?

11 MR. GOETZE: Uh, I would just, uh -- that's a  
12 trick question.

13 At this point we have enough information to move  
14 forward on our side with the processing. Other than  
15 providing us the well correlation, which is basically the  
16 POD number from the State Engineer, which is just not  
17 significant but still critical for us reporting our  
18 information, we could proceed. And what Mr. Padilla is  
19 providing is primarily an administrative issue.

20 So I would make the recommendation to take it  
21 under advisement.

22 EXAMINER CHAKALIAN: Perfect. That's good.  
23 That's what we'll do, then.

24 Mr. Padilla, is there anything further on this  
25 case?

1 MR. PADILLA: No. But I noticed Mr.  
2 Gebremichael raised his hand. He may have a comment.

3 MR. GEBREMICHAEL: Yes. Mr. Examiner I just  
4 want to clarify one of my questions.

5 EXAMINER CHAKALIAN: Uh-huh.

6 MR. GEBREMICHAEL: Which is the correlation  
7 between the unitized interval and then the new drills. So  
8 that what OCD is looking for is dominant strain of  
9 correlation between the new drills and then the unitized  
10 interval.

11 MR. HOOPER: Understood.

12 EXAMINER CHAKALIAN: Okay. So then, Mr.  
13 Padilla, are you submitting any changes to the exhibit  
14 packet in this case?

15 MR. PADILLA: I'd have to ask Mr. Hooper whether  
16 he is going to file an amended cross section or whatever  
17 geologic information he needs to file.

18 MR. HOOPER: Again, can that be filed as an  
19 amendment or would you like it as a supplemental?

20 EXAMINER CHAKALIAN: The way we'll do it is if  
21 you are going to do that then you provide it to  
22 Mr. Padilla and he will file an amended exhibit packet in  
23 this case with a cover letter. And it will explain what  
24 has changed, and then that amended exhibit packet will  
25 take the place of the original exhibit packet that was

1 filed.

2 MR. HOOPER: I see.

3 EXAMINER CHAKALIAN: So, Mr. Padilla, are you  
4 filing an amended exhibit packet in both cases or just  
5 -05?

6 MR. PADILLA: Let me ask clarification.

7 Mr. Hooper, what case do we have to file an  
8 amended exhibit packet on, both cases, to cover the  
9 geologic changes or requirements?

10 MR. HOOPER: This is Charles Hooper.

11 I believe it's only on the C-108 case, the -05  
12 case.

13 MR. PADILLA: Okay.

14 MR. HOOPER: Let me --

15 MR. PADILLA: Mr. Examiner, because filing an  
16 amended packet for the other, the statutory unitization,  
17 the -606 case, is pretty drastic.

18 EXAMINER CHAKALIAN: Okay. Okay. So then 606  
19 will be taken under advisement as of today. 605 we will  
20 wait until next Wednesday, the 4th of September close of  
21 business to receive the amended exhibit packet, and at  
22 that time we will remove the original exhibit packet and  
23 take that case under advisement, as well.

24 MR. PADILLA: I got that, Mr. Examiner.

25 EXAMINER CHAKALIAN: Is there anything from

1 anyone before we go off the record? (Note: Pause.)

2 Not hearing anything, it is 9:24 a.m. We are  
3 off the record. Thank you for your participation.

4 Note: Proceedings adjourned.)

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REPORTER'S CERTIFICATE

I, MARY THERESE MACFARLANE, New Mexico Reporter CCR No. 112, DO HEREBY CERTIFY that on Thursday, August 29, 2024, the proceedings in the above-captioned matter were taken before me; 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 and control.

I FURTHER CERTIFY that I am neither employed by nor related to nor contracted with (unless excepted by the rules) 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.



MARY THERESE MACFARLANE, CCR  
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Dated: September 16, 2024

**[& - adjacent]**

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[padilla - question]

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