

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 FAE II OPERATING,
LLC TO CONVERT PRODUCING WELLS TO
INJECTION WELLS FOR WATERFLOOD OPERATIONS,
LEA COUNTY, NEW MEXICO.

CASE NO. 22593

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
March 3, 2022
SANTA FE, NEW MEXICO

This matter came on for virtual hearing before
the New Mexico Oil Conservation Division, HEARING OFFICER
WILLIAM BRANCARD and TECHNICAL EXAMINER DEAN McCLURE on
Thursday, March 3, 2022, through the Webex Platform.

Reported by: Irene Delgado, NMCCR 253
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A P P E A R A N C E S

For the Applicant:

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I N D E X

CASE CALLED

SUMMARY OF CASE AND EXHIBITS 03

TAKEN UNDER ADVISEMENT 15

REPORTER CERTIFICATE 16

E X H I B I T I N D E X

Admitted

All Exhibits and Attachments 15

1 HEARING EXAMINER BRANCARD: Good afternoon,
2 everyone. It is still March 3, 2022. This is still the
3 hearing of the New Mexico Oil Conservation Division.
4 Continuing on today, we have managed to get through 67 items
5 on the agenda, we have two more to go, piece of cake.

6 So our items today, this afternoon, are 22593,
7 FAE Operating, and 22599. So I'm going to start with 22593,
8 FAE II Operating LLC.

9 MS. HARDY: Good afternoon, Mr. Examiner. Dana
10 Hardy on behalf of FAE II Operating LLC.

11 HEARING EXAMINER BRANCARD: Thank you. Is there
12 anyone else here today for Case 22593, LaMunyon. I should
13 say, with us today is distinguished Examiner Phillip Goetze,
14 who I believe will be taking his seat to join us. How are
15 you, Mr. Goetze.

16 MR. GOETZE: Yes, sir, I'm ready to go.

17 HEARING EXAMINER BRANCARD: With that, Ms. Hardy,
18 you may begin your presentation.

19 MS. HARDY: Thank you. FAE seeks an order
20 authorizing it to convert its CE LaMunyon Well Number 71Y,
21 73, 74, 75, 76, 77, 80 and 81 from producers to injectors
22 within its CE LaMunyon lease waterflood project which is in
23 the McKee zone of the Simpson formation located in Sections
24 22, 27 and 28, Township 23 South, Range 37 East, in Lea
25 County. FAE also seeks authorization to convert future

1 producers to injectors administratively.

2 The approved project area consists of 320 acres
3 of the following land in Township 23 South, Range 37 East,
4 the NW/4 of the SW/4 and the S/2 of the SW/4 of Section 22,
5 the NW/4 of Section 27, and NE/4 of the NE/4 of Section 28.

6 The project was approved by order R-3297 and was
7 expanded by order WFX 299, and the acreage involved in this
8 project is federal.

9 Our exhibits include the affidavit of Steven
10 Lehrbass who addresses land issues, Charles Hooper who
11 addresses geology, and Vanessa Neal who addresses
12 engineering.

13 Mr. Lehrbass has previously testified and been
14 recognized as an expert in petroleum land matters. His
15 exhibits include a plat of the tracts and ownership, a map
16 of the injectors and producers and C-108s, the hearing
17 notice letter and an affidavit of publication. And we did
18 timely provide notice to all affected parties both by
19 certified mail and publication, and we didn't receive any
20 objection. The BLM because it owns the minerals was also
21 notified by certified mail and it did receive our notice.

22 Mr. Hooper is a geologist who has not previously
23 testified before the Division. His CV is attached to his
24 affidavit as Exhibit C-1. His exhibits include the type
25 log, structure map and cross section. He concludes there

1 are no faults or geologic impediments that would impede the
2 efficiency of the project.

3 He also states that injection will not impair
4 hydrocarbon bearing zones, that injection fluid will be
5 confined to injection intervals and that there is no
6 hydrogeologic connection between the injection interval and
7 any drinking source of water. Based on his analysis, he
8 states that granting the application will protect
9 correlative rights and prevent waste.

10 Miss Neal is the vice president of engineering at
11 FAE. She has not previously testified before the Division
12 and has provided her CV as Exhibit C-1. Her other exhibits
13 include a production curve and an incremental production and
14 economic summary.

15 Miss Neal states that granting the application
16 will serve the interests of conservation, the production of
17 waste and protection of correlative rights. With that, I
18 ask FAE's witnesses be qualified as experts and the exhibits
19 be admitted and I do have the witnesses available for
20 questions from the Division.

21 (Audio-video connection disrupted.)

22 TECHNICAL EXAMINER McCLURE: You are muted,
23 Mr. Brancard, if you are talking.

24 MR. GOETZE: Is he still there? He may have gone
25 away.

1 TECHNICAL EXAMINER McCLURE: You could probably
2 step in, or do you want to wait for Bill.

3 MR. GOETZE: The Examiner is always critical, but
4 we do have questions for some of your witnesses. We will
5 give you a heads up on that.

6 MS. HARDY: Thank you. I expect that you would.
7 There he is.

8 HEARING EXAMINER BRANCARD: Hello? Hello? I go
9 to the office thinking my bandwidth is better, but
10 apparently not. Can you hear me now?

11 MS. HARDY: Yes, we can.

12 HEARING EXAMINER BRANCARD: I was, you know,
13 lifting my right hand saying, "Can all the witnesses raise
14 their right hands."

15 MS. HARDY: See if they can crowd into --

16 HEARING EXAMINER BRANCARD: There they are,
17 perfect, excellent. Now I can look at little pictures.

18 (Oath administered to witnesses collectively.)

19 HEARING EXAMINER BRANCARD: Good job. So first
20 issue, Ms. Hardy, was qualifying these witnesses as experts
21 today so they could offer their opinions. Do we have any
22 problems with that, Mr. Goetze?

23 MR. GOETZE: No, they are appear to be qualified
24 based on their backgrounds.

25 HEARING EXAMINER BRANCARD: So we will qualify

1 these experts as witnesses for the areas that you have
2 indicated, Ms. Hardy.

3 MS. HARDY: Thank you.

4 HEARING EXAMINER BRANCARD: I guess so we start
5 with you, Mr. Goetze, with some questions.

6 MR. GOETZE: Sure. First item, this waterflood
7 currently is nonexistent. Do you understand that?

8 UNIDENTIFIED WITNESS: Yes.

9 MR. GOETZE: Wait. Let's do this, this was to
10 Ms. Hardy and we'll follow up. Who else, who would speak on
11 that matter?

12 MS. HARDY: Mr. Goetze, it was my understanding
13 that the production within this project has been maintained,
14 and that (inaudible) converting the injection wells.

15 TECHNICAL EXAMINER GOETZE: Unfortunately when
16 Gulf made application for conversion of one of the wells
17 SWD, they shut down in a letter July 8, 1977. Surprisingly
18 it is not in the well file or in the order, but what it is
19 is that essentially Gulf at that time was waterflood
20 operations had been discontinued, the last two producing
21 wells, 6 and 7, have been plugged and abandoned and
22 recompleted to another zone. So they took the Number 9,
23 LaMunyon Number 9 and turned it into a saltwater disposal
24 zone using the same Simpson interval.

25 Not that I am -- I'm going here is the question,

1 you still want to maintain the same configuration for this
2 waterflood, in other words the same acreage, is this
3 adequate?

4 MS. HARDY: I think that would be a question for
5 Mr. Lehrbass.

6 MR. LEHRBASS: Yes, that's correct.

7 TECHNICAL EXAMINER GOETZE: Okay. And you
8 have -- these are all federal leases with, with only FAE as
9 the working interest, and so you have control over this same
10 outline of the project area that was there already?

11 MR. LEHRBASS: It's a single federal lease, yes.

12 MR. GOETZE: Okay, very good. So next item,
13 since we are going -- well, there was couple of things in
14 review of the C-108, we have a discussion of 600 barrels of
15 water, I assume that's 600 barrels per well per day? And
16 that would be a question for --

17 MS. NEAL: That's correct.

18 MS. HARDY: Ms. Neal.

19 MS. NEAL: Yes, that's correct.

20 TECHNICAL EXAMINER GOETZE: Okay. Thank you, Ms.
21 Neal. Then I will probably direct the next thing to you,
22 also, Ms. Neal. Right now we are looking at -- there was
23 the discussion on the pressure gradient. To clarify that,
24 the shallowest one you have in there is the Number 76. You
25 folks have had talked about 1400, actually you would be able

1 to go up to as much as 1837 PSI without getting a step rate
2 test, so you're aware that; correct?

3 MS. NEAL: Yes. I know the original order was
4 also assuming injection at 2000 PSI originally.

5 TECHNICAL EXAMINER GOETZE: That was 1967. And
6 the other thing, too, in the discussion of reviewing it, it
7 is my understanding you are pulling for (inaudible) in the
8 McKee sands within the upper portion of the Simpson;
9 correct?

10 MS. NEAL: It will be flooding the same sand that
11 was flooded in the past, so we are doing a -- correct.

12 TECHNICAL EXAMINER GOETZE: And typically, based
13 on some of the perf locations, they stuck lower, so I just
14 wanted to make sure of that. Let's see.

15 So for Ms. Hardy, essentially what we would do is
16 process this project using the same outline establishing new
17 waterfloods. You would provide us with the information of
18 reserves potential. I do have requests for supplemental
19 information. And so get out your note pad.

20 MS. HARDY: I'm ready.

21 TECHNICAL EXAMINER GOETZE: Okay. First item,
22 would you provide a better quality of the log you used for
23 the type section? Looking at it you can't see the numbers,
24 you can't -- I mean I can see where you are -- where you
25 are looking at the injection and zones. I would like -- if

1 you could break it up so we could see it with a little
2 clarity, I would like to see that.

3 MS. HARDY: Okay.

4 TECHNICAL EXAMINER GOETZE: Second item, plan of
5 operation. Now, we talk about injection and typically with
6 injection and waterflood projects, not only do we want to
7 see what you are doing with the injections, but provide us
8 with at least some sort of plan of operation with producers.

9 My main concern here is that we got your
10 injectors are in a pattern which is on the peripheral of the
11 structure. In order to ensure a sense that we are looking
12 at correlative rights and not wasting, I would like a little
13 more clarification. We have a very good description about
14 injection, what are we doing with the production?

15 Third item, lab reports, in the world I work when
16 you get a lab report you give it all from the front cover
17 page to the chain of custody. This is an EPA requirement.
18 It's fine to give us the highlights of what you like, but at
19 the same time, lab reports, lab reports, and this is because
20 we raise questions or at least we are told to raise
21 questions about procedure, chain of custody, QACPC as far as
22 pulling times and analysis. So again, provide those in PDF.

23 Item four, and this is the one that's going to be
24 a little bit of a new concept for you folks. I would like
25 someone within the group to give an assessment who feels

1 confident enough about the situation or potential for
2 induced seismicity.

3 I would suggest looking at a ten-mile radius
4 around at least this project area. The concern here is that
5 we do have an observed certain events above 25 down in the
6 draw area. They are attributed to not disposal, but to
7 waterflood. And when Dr. Sanford did the work for WIPP, he
8 also identified seismicity associated with waterflood in the
9 central platform.

10 I'm not asking for Zoebach model or anything like
11 this, I want consideration what activities were in the area
12 and demonstration. So it can be pretty much a literature
13 search as well as going through the earthquake catalogues.
14 I want that -- what I'm looking for is the documentation.

15 The other thing I would like clarity on, even
16 though this is a small operation, is your lower confining
17 layer, at least give a sense either through logs or geologic
18 interpretation that there is separation at least from the
19 Ellenberger. The Ellenberger is notorious for being a very
20 porous formation and has caused issues with direct
21 communication. Again the scale of this project, I do not
22 feel it would be something along the line of a disposal
23 operation, but at the same time, we are looking at all
24 sources of induced seismicity whether it's fracking,
25 disposal, or secondary recovery.

1 So there is four items there. Other than that
2 your submittal on March 1 answered al of my questions.
3 There was information on total recovery what's left in the
4 ground as well as the engineering side of the reservoir.

5 So with that, I have no more questions.

6 Mr. Brancard?

7 HEARING EXAMINER BRANCARD: I'm not hearing any
8 responses from the witnesses. Are they okay with all of
9 those requests? Ms. Hardy?

10 MS. HARDY: Check out the witnesses, if they have
11 an understanding of what they need to provide and whether
12 they can provide it.

13 MS. NEAL: We understand what you are requesting,
14 and we understand the reason for it, behind it, so --

15 TECHNICAL EXAMINER GOETZE: I will reiterate.
16 It's a good project, we have confidence in it and it's an
17 easy project to do. We just want to make sure the
18 documentation is there should there be someone come back
19 down, and like I discovered this little letter from Gulf Oil
20 very deeply which changed everything.

21 So we are just dotting the t's and crossing the
22 i's as we go. Okay?

23 MS. NEAL: Sounds good.

24 HEARING EXAMINER BRANCARD: As always, feel free
25 to contact Mr. Goetze if you have a question like what the

1 heck does he mean by this.

2 MS. NEAL: When would you like this documentation
3 by, a month?

4 TECHNICAL EXAMINER GOETZE: The sooner you get it
5 to us, the sooner we can write an order.

6 MS. NEAL: Okay, thank you.

7 TECHNICAL EXAMINER GOETZE: And hopefully we have
8 overcome our past issues of paperwork. Okay? Thank you.

9 HEARING EXAMINER BRANCARD: Okay. I guess my
10 only question is, Ms. Hardy, is exactly what you are seeking
11 in this case. So we have an existing waterflood project
12 from days of yore. Are we continuing that, or is this a new
13 project, or what -- where are we going with that?

14 MS. HARDY: Well, I think we're continuing the
15 project, although Mr. Goetze pointed out there is a letter
16 buried very deep somewhere in the file that terminated the
17 project, and we did not see that anywhere in, in the files,
18 of the well files, it sounds like it wasn't in them.

19 But I think we provided all the information
20 that's necessary to reinstate or continue the project and
21 convert the injection wells, especially since it's one
22 federal lease that's at issue, so we're not combining
23 multiple leases or unitizing a larger area.

24 HEARING EXAMINER BRANCARD: Mr. Goetze, would you
25 see us as writing a new order and basically approving a new

1 project and authorizing these wells to be converted into
2 injectors?

3 TECHNICAL EXAMINER GOETZ: I would see this as
4 using the older water flood as a template for a project area
5 and then writing a new order for with new authority.

6 HEARING EXAMINER BRANCARD: Do you, given this is
7 UIC, do you need individual orders for each individual well?

8 TECHNICAL EXAMINER GOETZE: No. This is area
9 permits so they would have the authority for multiple wells
10 within the project area to move about as they see.

11 HEARING EXAMINER BRANCARD: Okay. As many of you
12 who follow me, I'm often trying to figure out exactly what
13 we have to do when we take a case under advisement. All
14 right. Mr. McClure, do you have any questions?

15 TECHNICAL EXAMINER McCLURE: No, I'm happy with
16 leaving it with Phil. I have every faith.

17 HEARING EXAMINER BRANCARD: There's a vote of
18 confidence.

19 TECHNICAL EXAMINER GOETZE: No, one less order to
20 write, thank you.

21 HEARING EXAMINER BRANCARD: All right. Are there
22 any other persons here with interests in Case 22593 FAE II
23 Operating.

24 (No audible response.)

25 HEARING EXAMINER BRANCARD: If not, Mr. Goetze,

1 do you think we are ready to take this under advisement, or
2 would you like to continue this case?

3 TECHNICAL EXAMINER GOETZE: I don't think there
4 is a necessity for them -- if there is any questions I have,
5 I can directly reach out to them, and so it's matter of just
6 procedural information. Unless of course we find we have an
7 earthquake down there suddenly, then they might be back, so.
8 Other than that, no, I think taking it under advisement
9 would be good. Thank you.

10 HEARING EXAMINER BRANCARD: Ms. Hardy, did you --
11 you got all of your exhibits before us.

12 MS. HARDY: I had requested they be admitted, I
13 don't think we heard a ruling on that. I think we lost you.

14 HEARING EXAMINER BRANCARD: There is no ruling on
15 that, I was just trying to make sure that you admitted all
16 the ones you needed to.

17 MS. HARDY: Yes.

18 HEARING EXAMINER BRANCARD: So Case 22593, the
19 exhibits will be admitted into the record and this case will
20 be taken under advisement. Thank you.

21 MS. HARDY: Thank you very much.

22 (Exhibits admitted.)

23 (Taken under advisement.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico Certified Court Reporter, CCR 253, do hereby certify that I reported the foregoing virtual proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings to the best of my ability.

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.

I FURTHER CERTIFY that the Virtual Proceeding was of poor to good quality.

Dated this 3rd day of March 2022.

/s/ Irene Delgado

Irene Delgado, NMCCR 253
License Expires: 12-31-22