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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:

Case No.: 14675

APPLICATION OF CELERO ENERGY II LP
TO APPROVE THE EXPANSION OF THE
DRICKEY QUEEN SAND UNIT AREA AND
TO CONSOLIDATE SECONDARY RECOVERY
PROJECTS WITHIN THE EXPANDED UNIT
AREA, CHAVES COUNTY, NEW MEXICO.

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
 WILLIAM JONES, Technical Examiner

DATE: June 23, 2011
Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, and WILLIAM JONES, technical Examiner, on Thursday, June 23, 2011, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado
Paul Baca Professional Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87103

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A P P E A R A N C E S

FOR THE APPLICANT:

JIM BRUCE
P.O. Box 1056
Santa Fe, NM 87504-1056

I N D E X

EXHIBIT 1 ADMITTED

1 EXAMINER JONES: Could we do that Celero
2 case?

3 MR. BRUCE: Yeah, real quick.

4 EXAMINER JONES: Call Case 14675, application
5 of Celero Energy II, LP, to approve the expansion of
6 the Drickey Queen Sand Unit Area and to consolidate
7 secondary recovery projects within the expanded unit
8 area in Chaves County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing the applicant. I'm submitting
12 this by affidavit.

13 EXAMINER JONES: Any other appearances?

14 (No response.)

15 MR. BRUCE: Mr. Examiner, I submitted an
16 affidavit to you from James Gresham who is the land
17 manager for Celero. If you could turn back to the plat
18 a few pages back, I will tell you what we are here for.

19 Starting with Exhibit A to the affidavit.
20 Exhibit A is the original land plat for the proposed
21 Drickey Queen Sand Unit. When it was proposed, all the
22 acreage that is shaded dark did not qualify for
23 participation in the unit. So the original unit, if
24 you turn to the next page, Exhibit B, that is the unit
25 as originally approved by the Commission in 1959.

1 Over the years most of the uncommitted tracts
2 were subsequently added in. And if you turn to maybe
3 Exhibit C-2, which is the colored plat, what happened
4 was in 1960, Tract Number 37 on the north side of the
5 unit was added in. In 1961, Tract 35 up in the north
6 of the unit was added in, and then in 1964 Tract 46 on
7 the south side of the unit was added in. And then just
8 recently Celero, which is the 100 percent working
9 interest owner in the entire unit area as expanded,
10 added in Tracts 4, 5, and 39. So essentially all of
11 the original unit tracts, except for a couple I will
12 mention in a second, have been re-added to the unit, or
13 the unit has been expanded to include it all.

14 If you will look at Exhibit C-1, the page
15 before the colored plat, the two tracts on the north
16 side of the unit which are Tracts 31 and 44, they were
17 subsequently added to the Rock Queen Unit, which is the
18 unit to the north. So other than those two tracts, the
19 unit has now been expanded to include all of the
20 original tracts, and we are just seeking Division
21 approval for it. It has been approved by the
22 Commissioner of Public Lands and has been approved
23 Bureau of Land Management, and we are just seeking
24 Division approval for the final unit expansion.

25 Secondly, there are several separate

1 waterflood projects covering the unit. There is the
2 Drickey Queen Sand Unit Waterflood Project, and there
3 is separate waterflood orders that cover parts of
4 Tracts 4 and 37, and there is separate waterflood
5 authority covering Tract 5 which was referred to as
6 Drickey Federal Waterflood Project, and Celero is
7 simply requesting that they all be consolidated and
8 called the Drickey Queen Sand Unit Waterflood Project,
9 so that we don't have a bunch of extraneous orders out
10 there referring to different waterflood projects.

11 And this is all set forth in the affidavit,
12 and it does -- the affidavit does describe the unit as
13 expanded with all the tracts in the unit, and was
14 expanded from -- has been expanded from 5241.59 acres,
15 to now 7002.2 acres.

16 And then the final attachment to the
17 affidavit is simply the updated Exhibit B to the
18 original unit agreement, and as you will see, Celero is
19 the sole and only working interest owner in the unit,
20 and under the unit agreement, expansions were to be
21 approved by the Division, the Commissioner and the BLM,
22 and we are simply asking that it be consolidated into
23 one order.

24 EXAMINER JONES: If we consolidate the
25 waterflood project, all of these waterflood projects,

1 some of them were newer orders than others. Is that --
2 you are not asking for any -- are you asking for
3 specific language as to the injection wells permitted?

4 MR. BRUCE: I don't think there is any
5 special language. The only -- in the waterflood, no, I
6 don't think there is any special language required. We
7 just like them all consolidated under one waterflood
8 order or one unit order so that when, for permitting
9 purposes, like, for instance, you know, the Drickey
10 Federal Waterflood Project which covers almost two
11 sections of land, we would like them all under one name
12 so that -- so that the operator can rename the wells
13 and doesn't get in any trouble with permitting when
14 they go to the district office to get everything
15 permitted.

16 EXAMINER JONES: Was this involved with --
17 public lands involved with CO2?

18 WITNESS: These are not in the CO2. I think
19 they are -- could be in the future, but these are
20 strictly waterflood projects at this time.

21 EXAMINER JONES: Okay.

22 MR. BRUCE: The Rock Queen Unit immediately
23 to the north will have the initial CO2 flood.

24 EXAMINER JONES: And that does not include
25 the north half of Section 34? In other words, we do

1 not include the north half of Section 34.

2 MR. BRUCE: And the north half, northwest
3 corridor of Section 35.

4 EXAMINER JONES: So the way we see it in C-2
5 is the way --

6 MR. BRUCE: That is what the other
7 governmental bodies have approved as unit agreement
8 acreage.

9 EXAMINER JONES: We should have some record
10 of what they approved, I guess, somewhere.

11 MR. BRUCE: It does refer to the documents
12 approving it. If you need copies of those, I can
13 submit these afterwards. But there are -- most of
14 these should be in the Division's files. If not, I can
15 obtain them from the Commissioner's files to submit
16 them to you.

17 EXAMINER JONES: They specifically outlined?

18 MR. BRUCE: Yes.

19 EXAMINER JONES: Okay.

20 EXAMINER BROOKS: Are there any remaining
21 uncommitted tracts within the unit area?

22 MR. BRUCE: The only ones that the Examiner
23 and I were talking about is if you look at
24 Exhibit C-1 --

25 EXAMINER BROOKS: Yeah.

1 MR. BRUCE: -- the white acreage in Sections
2 34 and 35, that was part of the original unit boundary,
3 but they are not in the unit to the north.

4 EXAMINER BROOKS: And that's the crosshatched
5 area?

6 MR. BRUCE: Yes.

7 EXAMINER BROOKS: Okay. But all the tracts
8 within the unit boundaries --

9 MR. BRUCE: Are now committed.

10 EXAMINER BROOKS: -- are now committed, fully
11 committed?

12 MR. BRUCE: Yes.

13 EXAMINER BROOKS: Is all of this area in one
14 or more secondary recovery units, is there any --

15 MR. BRUCE: The Drickey Queen Unit was the
16 only unit. The other ones would have been leased
17 waterflood projects.

18 EXAMINER BROOKS: Is there any area that
19 won't be within any of the secondary recovery projects
20 once it's consolidated?

21 MR. BRUCE: I think they will all be covered.

22 EXAMINER JONES: Was the Drickey Queen a
23 statutory?

24 MR. BRUCE: No. It was a voluntary unit.

25 EXAMINER BROOKS: 59 was before we did --

1 before we had the statutory units, unless it's been
2 amended.

3 EXAMINER JONES: So the terms of allocation
4 of costs and production?

5 MR. BRUCE: It's in the original unit
6 agreement and the unit operating agreement.

7 EXAMINER JONES: For each of those?

8 MR. BRUCE: The original unit agreement
9 contain tract allocations, and those will be used from
10 here on out.

11 EXAMINER BROOKS: That's already been agreed
12 to by everybody?

13 MR. BRUCE: That is correct.

14 EXAMINER BROOKS: Okay. That's all I have.

15 EXAMINER JONES: Thank you. We will take
16 Case 14675 under advisement. Let's take a ten-minute
17 break.

18 EXAMINER JONES: Do we have anything else?

19 MS. MUNDS-DRY: If we can go off the record.

20 * * * * *

21

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. _____
heard by me on _____

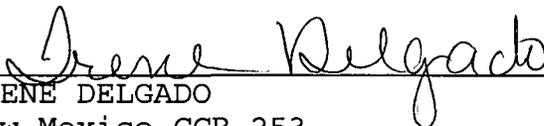
25 _____, Examiner
Oil Conservation Division

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REPORTER'S CERTIFICATE

I, IRENE DELGADO, NM CCR 253, DO HEREBY CERTIFY that on June 23, 2011, I did, in stenographic shorthand transcribe the proceedings set forth herein, and that the foregoing pages are a true and correct transcription to the best of my ability.

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 matter, and that I have no interest whatsoever in the final disposition of this matter.'


IRENE DELGADO
New Mexico CCR 253
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