

3 IN THE MATTER OF THE HEARING CALLED
4 BY THE OIL CONSERVATION DIVISION FOR
5 THE PURPOSE OF CONSIDERING:

5 APPLICATION OF CELERO ENERGY II, LP
6 FOR STATUTORY UNITIZATION, CHAVES
7 AND LEA COUNTIES, NEW MEXICO.

CASE NO. 14914

7 APPLICATION OF CELERO ENERGY II, LP
8 TO INSTITUTE A WATERFLOOD PROJECT AND
9 A TERTIARY RECOVERY PROJECT FOR THE
10 NORTH CABROCK CELERO QUEEN UNIT AREA,
11 CHAVES AND LEA COUNTIES, NEW MEXICO.

CASE NO. 14915

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

12

EXAMINER HEARING

13

14

BEFORE: DAVID K. BROOKS, Chief Examiner
RICHARD EZEANYIM, Technical Examiner

15

16

October 18, 2012

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Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, David K. Brooks,
20 Chief Examiner, and Richard Ezeanyim, Technical
21 Examiner, on Thursday, October 18, 2012, at the New
22 Mexico Energy, Minerals and Natural Resources
Department, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

23

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT CELERO ENERGY II, LP:

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1 (9:19 a.m.)

2 EXAMINER BROOKS: At this time, we'll call
3 Case Number 14914, application of Celero Energy II, LP
4 for a statutory unitization, Chaves and Lea Counties,
5 New Mexico. And I would assume probably we want to
6 consolidate that with 14915.

7 MR. BRUCE: Why are those being called
8 first?

9 EXAMINER BROOKS: Well, because
10 Mr. Ezeanyim has time limitations. We need a technical
11 examiner for those cases. Whereas, I can handle the
12 others by myself.

13 So you can shift gears and we can, let's
14 take a 15-minute break.

15 (Break taken, 9:19 a.m. to 9:34 a.m.)

16 EXAMINER BROOKS: Very good. Back on the
17 record.

18 At this time, we'll call Case Number 14914,
19 application of Celero Energy II, LP for statutory
20 unitization, Chaves and Lea Counties, New Mexico.

21 And, Mr. Bruce, do you want me to go ahead
22 and call Number 14915?

23 MR. BRUCE: Yes, sir.

24 EXAMINER BROOKS: Call Case Number 14915,
25 application of Celero Energy II, LP to institute a

1 waterflood project and tertiary recovery project for the
2 North Caprock Celero Queen Unit Area, Chaves and Lea
3 Counties, New Mexico.

4 Call for appearances in both those cases.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of
6 Santa Fe representing the Applicant. I have two
7 witnesses.

8 EXAMINER BROOKS: Any other appearances?

9 Very good.

10 Would the witnesses stand and identify
11 themselves for the record?

12 MR. LODGE: I'm John Lodge.

13 MR. PARKHURST: David Parkhurst.

14 (Witnesses sworn.)

15 JOHN ELTON LODGE,

16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Lodge, can you please state your full name
21 and city of residence?

22 A. Yes. My name is John Elton Lodge. I live in
23 Midland, Texas.

24 Q. Who do you work for and in what capacity?

25 A. I work for Celero Energy in the capacity of

1 vice president of land.

2 Q. And by profession, what are you?

3 A. I'm a landman.

4 Q. And have you previously testified before the
5 Division as a landman?

6 A. Yes, I have.

7 Q. And were your credentials as an expert
8 petroleum landman accepted as a matter of record?

9 A. Yes, they were.

10 Q. And are you familiar with the land matters
11 involved in these cases?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender
14 Mr. Lodge as an expert petroleum landman.

15 EXAMINER BROOKS: He is so qualified.

16

17 Q. (BY MR. BRUCE) Mr. Lodge, could you summarize
18 what Celero seeks in these two cases?

19 A. Yes. In Case 14914, Celero seeks to statutory
20 unitize all the interests in the Queen formation
21 underlying the proposed North Caprock Celero Queen Unit
22 Area. It's comprising approximately 2,8046.66 acres of
23 state and fee lands in Chaves and Lea Counties, New
24 Mexico.

25 In Case 14915, Celero seeks to approve --

1 seeks approval to institute a waterflood tertiary
2 recovery project for the unit I just described.

3 Q. Was the land we're here about previously
4 unitized?

5 A. Yes, it was.

6 Q. And it was a Queen unit; was it not?

7 A. That is correct.

8 Q. What is the status of that unit?

9 A. That unit terminated; production ceased. All
10 the leases in that old central unit terminated. Celero
11 has subsequently gone in and acquired leases over this
12 acreage, covering 100 percent of the working interest in
13 the proposed unit area.

14 Q. Could you identify Exhibit 1 and describe it
15 for the Examiner?

16 A. Yes. Exhibit 1 is a land plat that identifies
17 11 separate tracts that will comprise the unit area.
18 Also attached is a legal description of those respective
19 11 tracts.

20 EXAMINER EZEANYIM: Excuse me. I need to
21 understand something here about this unit. Is this an
22 old unit that has been approved, but now you want some
23 more approval? What is going on?

24 THE WITNESS: No. The old unit
25 terminated -- previously terminated.

1 EXAMINER EZEANYIM: Is that the Drickey
2 Queen?

3 THE WITNESS: No. No. It was the North
4 Caprock, a one-unit design, I believe is correct.

5 EXAMINER EZEANYIM: But the Drickey Queen
6 is still there?

7 THE WITNESS: Oh, yes. It's located to the
8 south.

9 EXAMINER EZEANYIM: To the south. But this
10 is an old unit that terminated, and you want to
11 reinstate? Is that what you said?

12 THE WITNESS: Not really reinstate.

13 MR. BRUCE: Not really reinstate.

14 EXAMINER EZEANYIM: What are you seeking?

15 MR. BRUCE: We are totally unitizing it
16 anew; we have a new unit agreement, everything.

17 EXAMINER EZEANYIM: Oh.

18 MR. BRUCE: All the leases that Mr. Lodge
19 testified -- all the prior leases expired; everything is
20 new.

21 EXAMINER EZEANYIM: Oh, okay. I was
22 wondering why you want to do that if you have already
23 unitized them before.

24 THE WITNESS: Yeah.

25 EXAMINER EZEANYIM: I see.

1 Q. (BY MR. BRUCE) What is Exhibit 2, Mr. Lodge?

2 A. Exhibit 2 is the proposed unit agreement. It's
3 a standard unit agreement that is proposed by and used
4 by the State Land Office. It's similar to other unit
5 agreements. It's been previously approved by the
6 Division. The unit agreement describes the unit area
7 and the unitized formation. The unitized substances
8 will include all of the oil and gas produced from the
9 unitized formation, and the designated unit operator is
10 Celero Energy II, LP.

11 Q. And is the unitized interval described in
12 Section 2(d) of the unit agreement?

13 A. That is correct.

14 Q. Now, let's briefly discuss ownership of the
15 tracts in the unit area: Will you describe the tract
16 ownership and how you determine the names of the
17 interest owners?

18 A. We checked the records, the public records that
19 were available for the ownership in the existing leases
20 as previously indicated. It was done on a
21 tract-by-tract basis. And we checked our own files. We
22 currently own 100 percent of the working interest in all
23 the lands to be included in the unit area relative to
24 the unitized formation.

25 Q. And each tract is comprised of separate common

1 ownership; is that correct?

2 A. That is correct.

3 Q. And there is one lease, state or fee, covering
4 each tract; is that correct?

5 A. That is correct.

6 Q. How many interest owners are there in the unit
7 area?

8 A. There is one working interest owner.

9 Q. And how many royalty owners?

10 A. There are two royalty interest owners.

11 Q. And how many overriding royalty owners?

12 A. 11 overriding royalty owners.

13 Q. And you stated that Celero is the only working
14 interest owner?

15 A. That is correct, yes.

16 Q. Do you seek to statutorily unitize the
17 single-fee royalty owner, as well as all of the
18 overriding royalty owners?

19 A. Yes.

20 Q. Has the Commissioner of Public Lands
21 preliminarily approved the unit?

22 A. Yes, they have.

23 Q. Is that reflected in Exhibit 3?

24 A. That is correct.

25 Q. Can you identify Exhibits 4A and 4B for the

1 Examiner?

2 A. 4A and 4B is a copy of the request for
3 ratification of the unit agreement that I sent out to
4 the overriding royalty interest owners, as well the
5 record title interest owners covering the lands within
6 the unit area.

7 Q. And Exhibit 4B is --

8 A. 4B is the record title owners. 4A is the
9 overriding royalty owners.

10 Q. Does the State Land Office require record title
11 owners to ratify the unit agreement?

12 A. Yes.

13 Q. Even if they don't own a working interest?

14 A. Yes.

15 Q. Now, this unitization is being done on short
16 notice. Did you describe why?

17 A. We've got leases that are going to expire, and
18 that's the reason for our request for expedient handling
19 of the matters.

20 Q. Have any of the interest owners expressed any
21 disagreement with the unitization?

22 A. No, none of them have.

23 MR. BRUCE: Mr. Examiner, for your
24 information, this is an anomalous -- even though it's a
25 secondary recovery unit, there is currently no

1 production on the unit.

2 EXAMINER BROOKS: Okay.

3 MR. BRUCE: And that is the reason for the
4 requested expedited approval. We need to get everything
5 approved by November 1, including from the Land Office,
6 so that the drilling activities that are currently
7 underway on the unit will preserve all the acreage in
8 the unit.

9 EXAMINER EZEANYIM: What do you mean
10 November 1? You want the order by November 1?

11 MR. BRUCE: For the unitization portion.
12 For the unitization portion, yes, because there are a
13 number of leases that are expiring.

14 EXAMINER EZEANYIM: By November 1?

15 MR. BRUCE: By November 1. And if it's
16 unitized, the Land Office will continue all those in
17 effect.

18 EXAMINER BROOKS: Yes. I was alerted to
19 this necessity before you came in, Mr. Ezeanyim.

20 EXAMINER EZEANYIM: Okay.

21 EXAMINER BROOKS: And we've talked to the
22 court reporter about getting a transcript and everything
23 else, too.

24 EXAMINER EZEANYIM: Okay.

25 Q. (BY MR. BRUCE) Mr. Lodge, assuming final

1 approval from the Land Office, have at least 75 percent
2 of the working interest owners and separately at least
3 75 percent of the royalty, plus overriding royalty
4 owners agreed to unitization as required by the statute?

5 A. Yes.

6 Q. And what is Exhibit 5?

7 A. Exhibit 5 is a copy of a unit operating
8 agreement that has been drafted for this respective
9 North Caprock Celero Queen Unit. It sets forth the
10 normal authorities and duties of an operator, as well as
11 the enforcement and expenses between working interest
12 owners. Since Celero is 100 percent working interest
13 owner, we didn't see that there was a real need for the
14 unit operating agreement, but the statutes appear to
15 require one, so we have provided one.

16 Q. And will the next witness discuss tract
17 participation under the unit agreement?

18 A. Yes.

19 Q. And was notice of the unitization hearing given
20 to all of the interest owners in the unit other than
21 Celero and the State Land Office?

22 A. Yes.

23 Q. And is that reflected in Exhibit 6?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, if you look at

1 Exhibit 6, the last two pages, there were two notice
2 letters that came back.

3 Q. (BY MR. BRUCE) With respect to those interest
4 owners, Mr. Lodge, what did you do?

5 A. We contacted them, gave them copies of the
6 correspondence that had been attempted to be delivered
7 to them. We also got them to sign a waiver of notice
8 relative to the applications for the proceedings.

9 Q. And are the waivers from those interest owners
10 submitted as Exhibit 7?

11 A. Yes.

12 Q. Were Exhibits 1 through 7 prepared by you or
13 under your direction or compiled from company business
14 records?

15 A. Yes.

16 Q. And in your opinion, is the granting of this
17 application in the interest of conservation and
18 preservation of waste?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, move for the
21 admission of Exhibits 1 through 7.

22 EXAMINER BROOKS: 1 through 7 are admitted.
23 (Celero Exhibit Numbers 1 through 7 were
24 offered and admitted into evidence.)

25 MR. BRUCE: I have no further questions of

1 the witness.

2 EXAMINER BROOKS: Very good. And I don't
3 believe I have any questions either.

4 Mr. Ezeanyim?

5 EXAMINER EZEANYIM: No questions.

6 DAVID A. PARKHURST,
7 after having been previously sworn under oath, was
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. BRUCE:

11 Q. Would you please state your full name and city
12 of residence?

13 A. My name is David A. Parkhurst, and I am from
14 Midland, Texas.

15 Q. Who do you work for and in what capacity?

16 A. I work for Celero Energy II, LP, and I'm an
17 engineer.

18 Q. Have you previously testified before the
19 Division as a petroleum engineer?

20 A. Yes, sir.

21 Q. And were your credentials as an expert accepted
22 as a matter of record?

23 A. Yes.

24 Q. And are you familiar with the engineering
25 matters related to these applications?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I tender
3 Mr. Parkhurst as being an expert in petroleum
4 engineering.

5 EXAMINER BROOKS: He is so qualified.

6 Q. (BY MR. BRUCE) Mr. Parkhurst, we have an
7 exhibit marked as Exhibit 8. It contains a lot of data.
8 Rather than me having to interrupt you, can you run
9 through the exhibit, and hit maybe the high points of
10 what the proposed unitization and waterflood tertiary
11 recovery intends to achieve?

12 A. Okay. If you'll look, there is a map on the
13 first slide, and you'll see in yellow, as you had
14 mentioned earlier, the Drickey Unit is just south of the
15 Rock Queen. I will point out that the Federal V and the
16 Trigg Units have now been incorporated into the Drickey
17 Unit. And the unit that we're going to talk about today
18 is the North Caprock Unit. You can see it up there in
19 the gray. So we own everything in the yellow, and then
20 we're seeking unitization on the North Caprock Unit I.

21 I will point out that there are two North
22 Caprock Units, a I and a II, and it's located just south
23 of the North Caprock Unit I.

24 The next slide is a slide of the CO2
25 infrastructure that's in the Permian Basin and the

1 Caprock location. You can see relative to the rest of
2 the infrastructure, we had put in an 18-mile line
3 directly from the Cortez pipeline, down to the Caprock
4 field.

5 In looking at the geology -- I'll go over
6 this fairly quickly -- our discovery well is the
7 Livermore #1 D, discovered in 1940. This Queen Sand is
8 about 3,000 feet deep, and you have an average porosity
9 with 15 and 20 percent. The permeability ranges from
10 5 to 500 millidarcy, and on the average thickness, about
11 20 feet, with about 10 feet of that being pay -- net
12 pay.

13 And secondary recovery operations were
14 initiated in 1956. The entire field has been under
15 flood at one time or another. There were 13 different
16 units originally in the Caprock field, all utilizing
17 80-acre, 5-spot patterns.

18 Now, this next map just shows you a
19 structure with the red being the gas cap, the green as
20 being your area with the oil. We have identified an
21 area there in yellow that's kind of a transition between
22 the water and the oil. And, of course, your blue is
23 your downdip water. Most all of the production in the
24 Caprock field has been within that green contour.

25 The next slide is just a slide that shows

1 you a type curve. This field is very uniform and
2 homogeneous across the whole entire field, so regardless
3 of which well you look at, these logs look very similar.
4 You'll see we've got a fairly thin 20-foot pay zone.

5 Now, just a little history and some
6 original holding places I've mentioned. These are all
7 drilled on 40 acres, utilizing an 80-acre, 5-spot
8 pattern. The field cumulative production for the entire
9 Caprock field is 76 million barrels. The four original
10 units that we purchased, which were in yellow on the
11 map, have CUMed about 38 million barrels. The recovery
12 of primary plus secondary is about 30 percent, and we're
13 estimating tertiary between 10 and 20 percent.

14 Our current pilot production has been as
15 high as 500 barrels of oil per day. Currently, it's
16 about 300. And if you'll notice down here, that's a
17 unit area of about 13.9 thousand acres, with the
18 original oil in place about 147.6 million barrels.

19 Q. And when you're talking about the production,
20 you're talking primarily for the Rock Queen and the
21 other existing units?

22 A. That's correct.

23 Now, looking at Discussion, this may give
24 you a little background of what we've done since we've
25 purchased the unit. We've purchased the units in

1 yellow.

2 Since 2006, we've spent about \$80 million
3 improving these assets. We've re-activated, TA'd or
4 P&A'd 130 wells; constructed and improved 10 tank
5 batteries and related facilities. I had mentioned
6 earlier about constructing the 18-mile, six-inch CO2
7 pipeline, and the re-injection facility was put into
8 place. We initiated the CO2 Pilot on the Rock Queen
9 Unit in February 2011. That's 17 patterns. We've
10 estimated ultimate recovery of about ten percent of the
11 original oil in place. We've spent 3 million on
12 environmental cleanup, which included nine pits and some
13 existing facilities, and then we have expanded the
14 Drickey Unit to include the Trigg and Federal V leases.

15 So moving forward, next month we're going
16 to, I guess, come back to a hearing for the expansion of
17 the Rock Queen CO2 Pilot. We'd like to expand that
18 project beyond its current boundaries. We're in the
19 process of doubling our re-injection capacity. In other
20 words, our compression needed to put the produced CO2
21 back into the ground. We're actually doing that as we
22 speak. Our target expansion to the Drickey Unit will be
23 by 2014, and then anticipate expansion for the North
24 Caprock by 2016. Potential reserves for both those
25 North Cap Units that I mentioned earlier is about 7

1 million barrels.

2 Now, in looking at our pilot that we've put
3 in the Rock Queen Unit, this is a production graph, with
4 barrels of oil per day, on the left, and either MCF per
5 day or barrels of water per day injected, on the right.
6 You can see the green is the oil curve. And since we
7 started injection in February of 2011, we've got a very
8 pronounced response from the pilot. If you'll look
9 at -- you can see there is a period, really, between
10 September and November where we actually stopped our CO2
11 injection, where we could pull all the pumping equipment
12 off and set these up to flow. So there was a period of
13 no injection.

14 We restarted our injection, and, like I
15 said, the field was up around the 500-barrel-a-day mark.
16 If you'll look at the pink at the bottom, that is the
17 produced CO2 that's coming back from the formation.
18 What we've done here is, we've quickly [sic] limited
19 ourselves with one compressor to about 4 million cubic
20 feet per day. So that's why we were putting in the
21 other compression. So that's kind of got us pinched
22 until we can get that compression put in, and the
23 compressors are out there being installed as we speak.

24 In talking about --

25 EXAMINER EZEANYIM: Excuse me. On that

1 CO2, I don't see the mark. It is blue? Red? You know,
2 you should have -- it's hard to identify each of those
3 curves.

4 THE WITNESS: Okay. The green is the oil
5 curve.

6 EXAMINER EZEANYIM: I know. We know that,
7 but I wanted to have it on this map so when we look at
8 it --

9 THE WITNESS: Oh, right. So you want me to
10 put the ledge --

11 EXAMINER EZEANYIM: Yeah, so if somebody --
12 you know, I know what it is, but if somebody else looks
13 at this --

14 MR. BRUCE: We'll provide that.

15 EXAMINER EZEANYIM: -- they will know what
16 they are looking at.

17 THE WITNESS: Right. Right. Okay.

18 EXAMINER EZEANYIM: Okay. Go ahead.

19 A. In the North Caprock Units I and II --

20 Q. (BY MR. BRUCE) Stop right there for a minute,
21 Mr. Parkhurst.

22 A. Okay.

23 Q. There were originally two separate North
24 Caprock Units; is that correct?

25 A. That's correct.

1 Q. And what we're here for today covered one of
2 those units --

3 A. That's correct.

4 Q. -- or is covering what was one of those units?

5 A. That is correct. That would be the North
6 Caprock Unit I, but I wanted to at least give you my
7 idea of the original oil in place for both of those
8 units as 46.4 million barrels. The North Caprock Celero
9 Queen Unit I that we're talking about today had 33.4
10 million barrels of that original oil in place, and it
11 also had CUMed about six-and-a-half million barrels.

12 Now, the original participation factors
13 were based on cumulative production of 75 percent,
14 usable wellbores at 12-and-a-half percent and the
15 acreage contribution of 12-and-a-half percent.

16 What we've done here, since this field is
17 plugged out, we thought that the primary, plus secondary
18 production on a track basis was the best indicator of
19 what we could estimate it would do in the future. So we
20 used just the primary and secondary CUM per track.

21 Q. And the acreage in the unit has certainly been
22 defined by development; has it not?

23 A. Yes.

24 And, of course, you know, we're
25 anticipating capital expenditures of, you know, 75- to

1 80 million for the Unit II and Unit 1 expansions.

2 And let's see. The exhibits, North Caprock
3 Celero Queen boundary, I think I've already got that
4 exhibit, and the lease contribution and ownership and,
5 of course, the participation parameter calculations.

6 The next curve. I just wanted to give you
7 an idea of what the North Caprock historical production
8 has been. So if you'll take everything north of the
9 Rock Queen Unit, which is all that gray above that, you
10 can see the production combined for all of those units
11 in a very nice 16.3-million-barrel CUM.

12 EXAMINER BROOKS: You're on page 11 now?

13 A. Yes, sir.

14 And you can see the very nice waterflood
15 response that you see in the late 50s. And there is
16 a -- it looks like there is a legend on here showing
17 each of the curves.

18 If you'll go to slide number 12, this is
19 what we have anticipated the North Caprock Unit I
20 production forecast will look like starting in 2016. We
21 expect the oil to peak around 2,000 barrels a day, and
22 from 2019 to 2020, you also have your CO2 purchase
23 assumptions, CO2 production and CO2 injection
24 assumptions.

25 The next slide --

1 EXAMINER EZEANYIM: On that CO2 production
2 and CO2 injection, they are all in red. Which one is
3 injection and which one is working production? They're
4 all in red, right?

5 THE WITNESS: Well, it's red --

6 EXAMINER EZEANYIM: I don't remember very
7 well, but it seems to me that those are in red, so I
8 don't know which one is which.

9 THE WITNESS: Okay. Well, we can change
10 that up. What I can do is put a different symbol.

11 EXAMINER EZEANYIM: Yeah. Could you? Good
12 idea, because I can see the oil production; I can see
13 the CO2 purchase, but I can't see -- the two in red, I
14 don't know which one is which.

15 THE WITNESS: Okay. All right.

16 A. Slide 13 is our Plan of Development. Initially
17 what we want to do is bring in five wells, which consist
18 of four producers and one central injector, within the
19 next six months, and we will follow that up with eight
20 additional injectors in the next 24 months. So that
21 will give us a total of nine injectors and four
22 producers to help us look at the waterflood feasibility.
23 That'll also give us some time to secure water for
24 injection, get our rights-of-way for our pipelines and
25 our water transfer and redirect that water supply.

1 It's also going to allow us to, you know,
2 evaluate our pattern for waterflood re-development and
3 look at any 40-acre pattern incremental recovery/
4 tertiary potential, and any incremental 80-acre
5 recovery. It's also going to help us, since all of
6 these wellbores are plugged, to re-enter them and get an
7 idea of the conditions that we're dealing with for these
8 older wellbores. And ultimately what we plan to do is
9 determine, you know, what type of CO2 potential exists
10 here, much like what we have to the south.

11 Q. (BY MR. BRUCE) And was this project proposed as
12 a method of reviving production from the reservoir?

13 A. Yes.

14 Q. Will the project be economic?

15 A. Yes, it should be.

16 Q. And is the unitized portion of this pool
17 suitable for a waterflood and tertiary recovery project?

18 A. Yes.

19 Q. And is the project technically and economically
20 feasible at this time?

21 A. Yes, it is.

22 Q. Will the waterflood and CO2 flood result in the
23 recovery of substantially more hydrocarbons from the
24 pool than will otherwise be recovered?

25 A. Yes. That's correct.

1 Q. And will the unitization and the enhanced
2 recovery project benefit the working and royalty
3 interest owners in the unit?

4 A. Yes.

5 Q. And is unitized management and operation of
6 this reservoir reasonably necessary to carry on the
7 proposed enhanced recovery operations?

8 A. Yes.

9 Q. And finally, you mentioned that the
10 participation parameters are simply primary and
11 secondary?

12 A. That is correct.

13 Q. Is that fair and reasonable and equitable to
14 all interest owners in the unit?

15 A. Yes, sir, I think so.

16 Q. Let's discuss the basic, initial injection
17 operations. Could you identify Exhibit 9 for the
18 Examiner?

19 A. Exhibit 9 is just the Application for Authority
20 to Inject, and there's -- I think you have all the wells
21 within the half-mile radius of the first injection well.

22 Q. Let's start off -- describe the initial
23 injection well in this location, just for the record.

24 A. Okay. The initial injector is going to be
25 called 32 Number 1. It is in Section 32. I don't know

1 if you-all have a map. I don't even have a map in front
2 of me to show you exactly where it is. We may need to
3 look back on the exhibit that John gave us. I don't see
4 a map in here.

5 Q. But first, you know, identify that well, and
6 then there is a wellbore sketch of what you intend to
7 do. Can you describe how that well is going to be
8 re-entered?

9 A. Yeah. We'll simply drill out --

10 EXAMINER EZEANYIM: Where is the well, what
11 page?

12 THE WITNESS: Here's the map right there.
13 I'm sorry. I didn't see it.

14 MR. BRUCE: Starting with 5, 6 and 7,
15 Mr. Examiner, pages 5, 6 and 7 of the C-108.

16 EXAMINER BROOKS: What pages?

17 MR. BRUCE: They're not numbered.

18 EXAMINER BROOKS: That's what I was going
19 to say. They don't appear to be numbered.

20 MR. BRUCE: They're not. I was just
21 counting my fingers and toes.

22 EXAMINER EZEANYIM: Okay. This is one of
23 the initial injection wells?

24 THE WITNESS: Yes, sir.

25 The 32 Number 4 will be the first injection

1 well, and it's right in the center of the circle. Did
2 you-all find the map, this map here (indicating)? It's
3 about five pages back in Exhibit 9.

4 EXAMINER BROOKS: Oh. Is this map
5 somewhere in --

6 EXAMINER EZEANYIM: It's not here.

7 EXAMINER BROOKS: Mr. Bruce, is that
8 map somewhere --

9 MR. BRUCE: Yeah. They are further on.

10 THE WITNESS: There is a map that's --

11 MR. BRUCE: Four or five pages below the
12 first wellbore sketch.

13 EXAMINER BROOKS: Oh, okay. Here we are.

14 EXAMINER EZEANYIM: Is that Exhibit 9?

15 EXAMINER BROOKS: Yeah, Exhibit 9. The
16 pages are not numbered, so it's really hard to find.

17 THE WITNESS: It would be the sixth page.

18 EXAMINER EZEANYIM: Are you talking about
19 this one (indicating)?

20 THE WITNESS: This one here (indicating).

21 MR. BRUCE: That and the very next page,
22 Mr. Examiner.

23 EXAMINER EZEANYIM: Okay. Go ahead.

24 A. The State 32 Number 4 is right in the center of
25 the circle there, and we're simply going to drill out .

1 the plugs in that and drill down to TD and then set a
2 packer and some injection tubing that's coated, and
3 place that well on injection. Of course, then we will
4 follow with the 32 Number 13, 32 Number 2, 32 Number 3
5 and 31 Number 1 as the proposed producers that are
6 completely surrounding that particular injector.

7 EXAMINER BROOKS: Okay. You're going to
8 have only one injector?

9 EXAMINER EZEANYIM: Nine.

10 THE WITNESS: Initially. We'll start with
11 the one, put in the four producers, and then put in
12 subsequently eight more injectors, surrounding those
13 producers, so that's four complete patterns.

14 EXAMINER BROOKS: What you're looking at
15 now, and you're asking to permit just the one, or are
16 you going to come back for expansions, or are you going
17 to ask us to permit all of them?

18 MR. BRUCE: At this point, if we can just
19 get the initial injection well approved.

20 EXAMINER BROOKS: Okay.

21 EXAMINER EZEANYIM: Why don't you need the
22 other ones? Why do you have to come back?

23 MR. BRUCE: Well, if we can do it
24 administratively, Mr. Examiner, that would be fine, but
25 at this point, over the next six-plus months, it's just

1 this one injection well.

2 EXAMINER EZEANYIM: I know we can do it
3 administratively, but I assume that you don't know when
4 you are going to have that nine wells. But if you are
5 designing this well for 80-acre, 5-spot, I think it's
6 feasible that you can do that. My hunch and my opinion
7 is to do the other nine at the same time.

8 MR. BRUCE: If I could ask Mr. Parkhurst
9 some questions.

10 Q. (BY MR. BRUCE) Mr. Parkhurst, will the
11 arrangement of the subsequent injection production wells
12 depend on the results of this initial well?

13 A. Probably not.

14 EXAMINER EZEANYIM: Okay. So where do we
15 go from here? Probably not -- so you mean that we can
16 permit the rest of the eight?

17 THE WITNESS: That's correct.

18 MR. BRUCE: But at this point,
19 Mr. Examiner, we don't have all the data on those, which
20 is why we're just asking for the one at this time.

21 EXAMINER EZEANYIM: Okay. I guess, since
22 we're having this discussion, because that's why -- I
23 mean, I don't know how long I'm going to be here. What
24 are you actually asking for? Because when I read the
25 docket here, you say you are asking for one unit [sic]

1 and six oil and tertiary recovery. And then my
2 understanding from the president and the vice president,
3 there is nothing happening right there now, right?

4 There is no --

5 THE WITNESS: That's correct. They're
6 completely plugged out.

7 EXAMINER EZEANYIM: So what are you doing?
8 Are you doing both the secondary recovery and tertiary
9 recovery at the same time? Because that -- I mean, when
10 I read 14915 -- I want to understand what you want, so
11 we can begin to help you.

12 THE WITNESS: Sure. All we're really
13 trying to do is re-institute the waterflood.

14 EXAMINER EZEANYIM: Okay. And then?

15 THE WITNESS: And by starting with these
16 wells, I've got to determine what kind of wellbore
17 conditions these plugged wells are in. We've got to
18 determine what the bottom hole pressure -- because
19 ultimately we want to bring CO2 in, but you've got to be
20 higher than the admissibility pressure, which is about
21 1,069 pounds. So based on what we see on bottom-hole
22 pressure, I'll determine how much fill-up volume we need
23 to get it above that pressure.

24 So there is quite a bit of work that we
25 need to do to get it ready to CO2 flood, and then also

1 determine if there is any incremental waterflood
2 reserves out there.

3 EXAMINER EZEANYIM: So you're not talking
4 about CO2 flood in this hearing, right?

5 THE WITNESS: Not right at this moment, no,
6 but in the future, yes.

7 EXAMINER EZEANYIM: You mentioned that you
8 are going to come back to get -- in one of the
9 testimonies. That's what you said.

10 THE WITNESS: Right.

11 EXAMINER EZEANYIM: You know, looking
12 forward, you are going to -- I mean, I like the project.
13 Don't get me wrong. I'm just trying to understand for
14 when we have to write the order.

15 THE WITNESS: Sure.

16 EXAMINER EZEANYIM: Because you want us to
17 write that first, the secondary and tertiary, so we want
18 to understand what you are doing and see how we can
19 begin to help you.

20 THE WITNESS: Right. I would think it
21 would be writing it for the secondary order, and then
22 coming back later for the tertiary.

23 EXAMINER EZEANYIM: Okay. That makes sense
24 now, because when I read it, I thought you were asking
25 for both at the same time.

1 THE WITNESS: Right. Right.

2 EXAMINER EZEANYIM: Okay. Go ahead.

3 Q. (BY MR. BRUCE) Behind the unit plat is a list
4 of wells for purview, Mr. Parkhurst. Does Exhibit --
5 does C-109 [sic] also contain information on all of the
6 plugged and abandoned wells that you have reviewed?

7 A. Yes.

8 Q. And have you reviewed the well files, and are
9 those wells properly plugged and abandoned?

10 A. Yes. In our opinion, they are.

11 Q. Now, when you commence the injection, what type
12 of volumes are you initially looking at injecting into
13 the first injection well?

14 A. Probably an average of 500 barrels of water per
15 day, up to a maximum of 1,000 barrels of water per day.

16 Q. And what did you say the depth is,
17 approximately? 3,000?

18 A. 3,000 feet.

19 Q. And you do know that under Division
20 regulations, injection can only initially be limited to
21 .2 psi to the top depth of perforation?

22 A. That is correct.

23 Q. Does the C-108 also contain water analyses?

24 A. Yes, sir.

25 Q. And do you see any comparability problem

1 between the water you're going to be injecting and any
2 formation?

3 A. No, we don't.

4 Q. Does the C-109 [sic] also contain analyses of
5 any freshwater wells in the area?

6 A. Yes, it does.

7 Q. What is the source of the injection water?

8 A. The injection water we're going to use is going
9 to be probably from the Rock Queen Unit. We make quite
10 a bit of water there, so that's probably going to be the
11 source of the water for this flood.

12 Q. And finally, are there any -- are you aware --
13 is Celero aware of any faults in this area that would
14 lead to communication within the zone?

15 A. No.

16 Q. And is Celero the only offset operator, working
17 interest owner within the area of review of the initial
18 injection well?

19 A. Yes, sir.

20 Q. And is the surface owner of the injection well
21 the Commissioner of Public Lands?

22 A. I believe so.

23 Q. Were Exhibits 8 and 9 either prepared by you or
24 compiled from company business records?

25 A. Yes, sir, they were prepared by us.

1 Q. And in your opinion, is the granting of
2 this application in the interest of conservation and the
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, that's all I have
6 of the witness.

7 Only as to the injection application, does
8 it need to be continued for two weeks to comply with
9 Division notice requirements?

10 EXAMINER BROOKS: Okay. Now, you indicated
11 you wanted an order on the statutory unitization within
12 two weeks, right?

13 MR. BRUCE: Yeah. Could I get -- could we
14 obtain a second --

15 EXAMINER BROOKS: So what you're asking us
16 to do is continue the --

17 MR. BRUCE: Injection application.

18 EXAMINER BROOKS: -- to continue Case
19 14915, but to get an expedited order in Case 14914?

20 MR. BRUCE: To take that into
21 consideration.

22 EXAMINER BROOKS: So these two cases are
23 continued for the purposes of -- or are consolidated for
24 purposes of hearing only?

25 MR. BRUCE: That is correct.

1 EXAMINER BROOKS: There will be separate
2 orders, which is usually the case in this type of case
3 anyway, but we usually issue them separately.

4 MR. BRUCE: And that will allow time for
5 Mr. Parkhurst to amend a couple of the exhibits -- or
6 attachments to Exhibit 8 and submit them to the
7 Examiners.

8 EXAMINER BROOKS: I don't believe you
9 tendered the exhibits here.

10 MR. BRUCE: I would move for the admission
11 of Exhibits 8 and 9.

12 EXAMINER BROOKS: 8 and 9 are admitted.
13 (Celero Exhibits Number 8 and 9 were
14 offered and admitted into evidence.)

15 EXAMINER BROOKS: That concludes your
16 examination?

17 MR. BRUCE: That is correct.

18 CROSS-EXAMINATION

19 BY EXAMINER BROOKS:

20 Q. I believe Mr. Bruce asked you the question if
21 you were aware of any faults that could permit
22 communication of injected fluids outside the formation.
23 The certificate we require is properly in here, but this
24 is a little more specific to make sure the record is
25 clear on that. Have you examined the geological

1 evidence to determine if there would be any faults -- if
2 there is any evidence of any faults that would allow the
3 injector to migrate outside the formation?

4 A. We haven't seen any faults.

5 Q. But my question is: Have you done a thorough
6 investigation --

7 A. Yes, we have.

8 Q. -- to determine that?

9 Okay. Thank you. That's all I have.

10 EXAMINER BROOKS: Mr. Ezeanyim?

11 CROSS-EXAMINATION

12 BY EXAMINER EZEANYIM:

13 Q. I didn't get a chance to go through Form C-108,
14 and you have alluded to the fact that you have the water
15 and freshwater wells and everything. I haven't gone
16 through them. We just rushed through it, which is okay.
17 We can go through it, and if we need further
18 information, we can ask, I mean, while conducting the
19 hearing.

20 But I want to go back to your area of
21 review of the wells. I mean, we can talk about your
22 area of review in Form C-108 in-house to determine
23 whether what you said is appropriate or if we need
24 further information. If you go to that spreadsheet, are
25 all these areas of the wells plugged and abandoned?

1 A. Yes.

2 Q. All of them?

3 A. Yes.

4 Q. Of course, nothing is producing there; nothing
5 is happening there right now?

6 A. That's correct.

7 Q. And all these cases of all the plugged and
8 abandoned wells are included in here, right?

9 A. Yes.

10 Q. And all of them were plugged and abandoned?

11 A. Yes.

12 Q. So I can go back and make sure you are not
13 going to provide any conduits for -- for anything [sic]
14 to migrate upward?

15 A. Yeah.

16 Q. Do you have the initial injection well schedule
17 in here, too?

18 A. Sure.

19 Q. Where is that? I need to know how you
20 constructed that well?

21 MR. BRUCE: Mr. Examiner, there is a
22 current wellbore sketch and a proposed wellbore sketch.

23 EXAMINER EZEANYIM: Yes. Yes. Where is
24 it? With the lack of page numbers, I can't find
25 anything.

1 MR. BRUCE: If you'll go toward the top, go
2 back in about six pages.

3 EXAMINER EZEANYIM: Is that the proposed
4 well sketch?

5 THE WITNESS: Yes.

6 MR. BRUCE: It's blue and white, and then
7 if you go back four pictures.

8 Q. (BY EXAMINER EZEANYIM) Is that it?

9 A. Yeah. That's the existing, and then the
10 proposed is about three or four pages behind it.

11 Q. And then the rest of the schematics are the
12 abandoned wells?

13 A. Yes, sir.

14 Q. I'm sorry. I didn't look at it.

15 A. That's all right.

16 Q. I think -- I believe that this project is going
17 to be profitable, but that is why I require you to have
18 calculations, to demonstrate that that is the case.
19 Because we are going to ask you about the profitability,
20 is it worth doing, and you said yes. But I don't see
21 any evidence here to indicate that you did some
22 calculations, what you can get by doing secondary
23 recovery tertiary. At this point, it's going to be --
24 we don't want to approve a project that will end up not
25 being profitable. You know, that's why we want some

1 calculations, to demonstrate the calculation you did.

2 What do you think that -- you say they are going to be
3 10 to 20 percent?

4 A. Yes, sir.

5 Q. So we need that calculation, you know, what you
6 think the outlay would be and what the recovery would be
7 and what would be the net profit so that we can put it
8 in the order that you are going to do that. I am not
9 saying you are not, but I wanted to see some evidence to
10 do that.

11 A. I can certainly provide that information.

12 Q. Okay. Yeah. We would like to see that
13 information, because, you know, I would like to see
14 what -- how much oil is produced. You are spending this
15 money. You say you have already spent 80 million doing
16 something.

17 A. Yes.

18 Q. We don't want it to go to waste because
19 everybody benefits.

20 A. Right.

21 Q. So please send that information.

22 EXAMINER BROOKS: I think we need that
23 before we issue the order for the statutory units,
24 because I believe the findings are required by the
25 Statutory Unitization Act.

1 EXAMINER EZEANYIM: Yes.

2 And when I look at that, I think it will
3 help us to hurry and do it now. We still need to go
4 determine whether the location is -- I know we rushed
5 through these things and that I have not -- I didn't get
6 time to read all of it. Those are the things that the
7 statutes allow us here to determine where you want to
8 start -- and tie [sic] that piece of acreage. We want
9 to make sure it's equitable. We want to make sure -- we
10 want to make sure everything is okay. So maybe it's in
11 the pack here, which I can go back and see, but, you
12 know, you didn't point them out to me during the
13 hearing, and I think because we are trying to, you know,
14 hurry with that -- I'm saying that -- I'm not saying I'm
15 not happy with this, but, you know, we still have a lot
16 of work to do to find all this before we even approve
17 the statutory unitization.

18 So I would encourage you to give us that
19 calculation maybe by Monday, because November 1 -- I
20 don't know.

21 In two weeks?

22 EXAMINER BROOKS: Two weeks from today.

23 EXAMINER EZEANYIM: Two weeks from today.

24 So we need to have that.

25 And why I'm not really concerned about

1 something like that is, it's almost identical. This is
2 Celero. So if you have a working interest, it's more
3 ambitious.

4 I have nothing further.

5 Q. (BY MR. EZEANYIM) But I wanted to ask a
6 question. This is not related to this. I wanted to ask
7 about the Drickey Queen. What is happening there?

8 A. The Drickey Queen is currently under CO2 --
9 waterflood. It's the unit that's immediately south of
10 the Rock Queen.

11 Q. Yeah. I saw it in the plat.

12 A. Yes, sir.

13 Q. Yeah. I read about that project. That's why I
14 wanted to know. Is it progressing very well?

15 A. Yes, sir.

16 Q. And profitable?

17 A. Yes, sir.

18 Q. Okay. Good. So give my congratulations, and
19 go ahead and see what's going on.

20 A. Okay. All right.

21 EXAMINER BROOKS: No further questions?

22 MR. BRUCE: I have nothing further in this
23 matter, Mr. Examiner.

24 EXAMINER BROOKS: Very good. Case Number
25 14914 will be taken under advisement.

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Case Number 14915 will be continued to
November 1st for purposes of notice.

(The hearing concluded, 10:21 a.m.)

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

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

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.

Mary C. Hankins
MARY C. HANKINS, CCR, RPR
Paul Baca Professional Court Reporters
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Date of CCR Expiration: 12/31/2012