

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

6 APPLICATION OF CELERO ENERGY II, LP
7 TO EXPAND THE WATERFLOOD PROJECT
8 AND TERTIARY RECOVERY PROJECT FOR
9 THE ROCK QUEEN UNIT AND TO QUALIFY
10 THE EXPANDED PROJECT FOR THE
11 RECOVERED OIL TAX RATE.

CASE NO. 14942

ORIGINAL

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

14 BEFORE: WILLIAM V. JONES, Chief Examiner
15 DAVID K. BROOKS, Legal Examiner

16 January 24, 2013

17 Santa Fe, New Mexico

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, William V. Jones,
20 Chief Examiner, and David K. Brooks, Legal Examiner, on
21 Thursday, January 24, 2012, at the New Mexico Energy,
22 Minerals and Natural Resources Department, 1220 South
23 St. Francis Drive, Porter Hall, Room 102,
24 Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT CELERO ENERGY II, LP:

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1 (11:29 a.m.)

2 EXAMINER JONES: Call Case 14942, which I
3 understand was heard on December 13th, but it's the
4 application of Celero Energy II, LP to expand the
5 waterflood project and tertiary project for the Rock
6 Queen unit and to qualify the expanded project for the
7 recovered oil tax rate, Chaves and Lea Counties,
8 New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing the Applicant. I have one
12 witness.

13 EXAMINER JONES: Any other appearances?
14 Will the witness please stand?
15 And will the court reporter swear the
16 witness?

17 DAVID CATANACH,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Will you please state your name and city of
23 residence, for the record?

24 A. My name is David Catanach. I live in Santa Fe,
25 New Mexico.

1 Q. What is your relationship to Celero in this
2 case?

3 A. I am working with Celero Energy II, LP as a
4 regulatory consultant.

5 Q. And what are you by profession?

6 A. I am a petroleum engineer by education.

7 Q. And have you previously testified before the
8 Division?

9 A. I have.

10 Q. And were your credentials as an expert
11 petroleum engineer accepted as a matter of record?

12 A. They were.

13 MR. BRUCE: Mr. Examiner, I tender
14 Mr. Catanach as an expert petroleum engineer.

15 EXAMINER BROOKS: I object (laughter). We
16 know Catanach too well.

17 (Laughter.)

18 EXAMINER JONES: He is so qualified.

19 Q. (BY MR. BRUCE) Mr. Catanach, Exhibit 3 is the
20 C-108. And since Mr. Brooks may leave, let's -- let's
21 discuss the notice first, just so we've got that on
22 record.

23 MR. BRUCE: And, Mr. Examiner, Mr. Catanach
24 did number the pages, first of all.

25 EXAMINER BROOKS: Good for him.

1 Q. (BY MR. BRUCE) And if you would turn to --
2 well, turn to page 164, and the page after that is
3 unmarked, but it's 165.

4 A. Sorry about that.

5 EXAMINER JONES: Joking, of course. 164?

6 EXAMINER BROOKS: There actually is page
7 164.

8 MR. BRUCE: Yeah. And the page right after
9 that, if you could handwrite on it page "165." That's
10 what it is.

11 Q. (BY MR. BRUCE) And first, to get this out of
12 the way, Mr. Catanach, the signature -- the first page
13 of Exhibit 3, the C-108, is signed by Mike Metza. Who
14 is that?

15 A. Mike Metza is an engineer that works for Celero
16 in Midland, Texas.

17 Q. And have you worked with him on the preparation
18 of the C-108?

19 A. Yes. I've worked in conjunction with
20 Mr. Metza.

21 Q. So you have reviewed all the data, technical
22 data, in the C-108?

23 A. Yes, I have.

24 Q. Starting first with the notice, the land plat,
25 marked Exhibit [sic] 165, did you prepare that?

1 A. I did prepare this.

2 Q. And what does that reflect?

3 A. The circles -- well, the red dots are the
4 injection wells that we're seeking approval for today.
5 They also show one-half mile circles around each
6 injection well. The green boundary -- the green line
7 that you see on this map is the Rock Queen unit's
8 outline, and the areas that you see in sort of a peach
9 color or a rose color are leases that are outside the
10 unit boundary that we provided notice to in this
11 application.

12 Q. And is that information contained in the next
13 three pages, 166 through 168?

14 A. Yes, it is. It is summarized. These leases
15 are summarized by operator and acreage.

16 Q. And I've handed you Exhibit 4. Is that my
17 Affidavit of Notice regarding the mailing of the
18 C-108 -- or the entire application to these offset
19 owners?

20 A. Yes, it is.

21 Q. And if you'll look at Exhibit 4, Mr. Examiner
22 [sic], there is one party, Kerr-McGee Oil & Gas Onshore,
23 that we could not get delivery on. Could you comment on
24 that, Mr. Examiner? I mean -- Mr. Examiner' --
25 (laughter) -- Mr. Catanach?

1 EXAMINER BROOKS: I guess it's entirely
2 appropriate. If it's appropriate to address me as
3 judge, which the people from Texas occasionally do.

4 (Laughter.)

5 A. Mr. Examiners, Kerr-McGee was on the -- Celero
6 had Kerr-McGee as being the leasehold owner in the
7 northeast quarter of Section 35 and the south half of
8 the northwest of 35. And as such, I tried to provide
9 notice to Kerr-McGee, the address that I was given by
10 Celero. After we had sent notice, we realized that
11 Kerr-McGee was probably no longer in existence. We are
12 going to subsequently send notice to Anadarko Petroleum,
13 who we believe is the successor leasehold owner of that
14 acreage. So we still need to do that. We have not sent
15 that notice yet.

16 Q. (BY MR. BRUCE) And is there one other party
17 that you need to send notice to?

18 A. There is one other party. And that is my
19 mistake. In looking through this before the hearing, I
20 realized that -- all this acreage that's shaded in this
21 red color, there are no producing wells; there are no
22 wells on this acreage. These are all leasehold owners.
23 So I went back and I looked to make sure there weren't
24 any producing wells, and I did find a well in Section
25 34. As a matter of fact, in Unit C of Section 34, there

1 is a saltwater disposal well in the Queen Formation that
2 is operated by Reliance Energy. So we are going to
3 provide notice to Reliance, as well as Anadarko.

4 EXAMINER BROOKS: Where did you say this
5 unit was?

6 A. In Unit C of Section 34, 13 South, 31 East.

7 MR. BRUCE: And so at the end of the
8 hearing, Mr. Examiner, we would like the matter
9 continued for four weeks to provide additional notice to
10 those two parties.

11 And, Mr. Examiner, I would note that with
12 respect to Kerr-McGee, I do know, once our memories were
13 jogged, that Anadarko basically bought out Kerr-McGee's
14 assets some half dozen years ago. But I don't think it
15 was a merger, because there are still corporate
16 Kerr-McGee, you know, listed in certain records, but
17 nobody has an address for them. I, myself, mailed to
18 probably three different addresses trying to find one.
19 They don't exist, even though their name appears of
20 record.

21 Q. (BY MR. BRUCE) Mr. Catanach, let's run through
22 the C-108.

23 (Examiner Brooks exits the hearing, 11:37
24 a.m.)

25 MR. BRUCE: And, Examiner Jones, I think

1 you're aware of this, but when we did have the hearing
2 on December 13th, there is a pilot CO2 flood within the
3 unit we want to expand on. And we did put on evidence
4 regarding the benefits of the expansion and production,
5 et cetera, but we did not present the C-108 because of
6 questions as to whether we could -- we originally asked
7 for the C-108, or the expansion, to be approved
8 administratively, but because there was a question as to
9 whether that was proper under the Division's rules, we
10 are presenting the C-108 here today.

11 Q. (BY MR. BRUCE) Mr. Catanach, if you could, turn
12 to page 3 and maybe describe just a little bit the
13 orders -- the number of orders affecting the waterflood
14 or CO2 flood in this area, and maybe describe briefly
15 the CO2 pilot project.

16 A. The original pilot CO2 project, Mr. Jones, was
17 approved a couple of years ago by Order Number R1541-A,
18 and there is a map. If you want to -- if you want to
19 look to see how the pilot project area relates to the
20 unit, there is a map. It's on page 48. It's actually
21 the one before that.

22 The area shown in the blue outline is
23 basically the original pilot area, pilot CO2, and then
24 the outline in yellow is the outline of the Rock Queen
25 unit in its entirety.

1 Q. So that -- I was going to say, in the testimony
2 of the last go-around, there has been a positive
3 production response from the CO2 flood; has there not?

4 A. That's correct. Mr. David Parker testified at
5 the last hearing that they want to expand it now to
6 include the entire unit. They have seen some response
7 to CO2 injection, and they're going forward with more of
8 a full-scale unit development.

9 In this application, we're asking for 14
10 injection wells -- 14 additional injection wells that
11 are outside the pilot CO2 area. These wells are all --
12 to my understanding, they're all currently authorized
13 for water injection. And page 3 shows the various
14 orders that have approved the injection for these wells.
15 Basically what we're asking for is the authority to
16 inject CO2 and produce gas at this point.

17 Q. Turning to page 4, what will be the injection
18 rates?

19 A. The proposed rates are 600 barrels of water per
20 day, and that's average. And the maximum is 1500
21 barrels of water per day. As far as CO2, the average
22 rate is 1250 MCF per day, and the maximum is 2,000 MCF
23 per day.

24 Q. And what about the injection pressures?

25 A. Mr. Jones, in the original pilot project

1 hearing, pilot CO2 project, we brought forth numerous
2 step rate test data. And as a result of that, we were
3 granted, on a unit basis, an injection pressure of 800
4 psi for water and 1200 psi for CO2. And if you want
5 to -- that was actually issued -- there was a subsequent
6 order issued to 1541-A, and 1541-B actually approved the
7 injection pressures for the unit.

8 Q. And so you want to continue those injection
9 pressures in effect?

10 A. That's correct. We believe they're in effect
11 for the entire unit, so they would be applicable to
12 these wells.

13 Q. And if you turn to the next section, if you
14 will, of the C-108, pages 6 through 47, what is
15 contained in those pages?

16 A. Pages 6 through 47 are the injection well data
17 sheets and wellbore schematic diagrams produced in the
18 injection wells that we're planning to put on as
19 injection.

20 Q. And if you look at page 8, could you just
21 briefly discuss the typical injection well?

22 A. Typically, Mr. Jones, these are -- a lot of
23 these wells are older wells. This one, in particular,
24 was drilled in 1955. So quite a few of these were
25 drilled around that time. But typically, you know, they

1 have surface casing set anywhere between 2- and 400
2 feet. The Ogallala is present out here, and it occurs
3 at depths of, you know, 400 feet or less. Typically,
4 they would set five-and-a-half-inch or four-and-a-half-
5 inch casing at the -- sometimes at the top of the Queen,
6 and a lot of the wells were then completed open hole in
7 that Queen Sand interval.

8 Subsequent to that, in later times, they
9 would, basically, sometimes set ~~the~~ liner at the bottom
10 of the well, and then, if necessary, they would tie into
11 that liner later on and run the liner all the way to the
12 surface. So that's basically the way that some of these
13 wells are constructed.

14 I might point out that there are two or
15 three wells -- and you can see one of these on page
16 11 -- that -- I believe there are three wells that fall
17 into this category. And these wells -- my understanding
18 is that the casing at the bottom of the hole was in poor
19 shape in these wells, and so they were plugged back and
20 sidetracked to avoid or to -- you know, to make sure
21 that the integrity of the well was going to be adequate.
22 So I believe there are three of these wells that are
23 constructed this way.

24 Q. And in your review of the data, are all of
25 these current water injectors properly completed so as

1 to meet the movement of the fluid between zones?

2 A. Yes, they are.

3 Q. And we've already touched on page 48, the land
4 plat. And then there is another plat, page 49. What is
5 that?

6 A. This is, basically, a map that shows some of
7 the stuff we've already presented, but this is -- again,
8 the brown outline is the Rock Queen unit area. The blue
9 circles represent the area of review for these injection
10 wells. The purple -- there is a purple-dotted line
11 inside the units that corresponds to the original pilot
12 area. And this basically shows the status of certain
13 wells within the unit, the TA'd wells, injectors,
14 producers, et cetera. There is a lot of information on
15 this map.

16 Q. And on pages 50 through 53, is all of the data
17 on the wells within the area of review contained in
18 those spreadsheets?

19 A. That's correct. And I believe -- some of this
20 data may have been presented at earlier hearings, but we
21 went ahead and compiled it again in its entirety.

22 EXAMINER JONES: Okay.

23 Q. (BY MR. BRUCE) And do pages 54 through 158
24 contain data on plugged and abandoned wells within the
25 areas of review?

1 A. That's correct. On my count, there are 46
2 plugged wells within the area of review for these
3 injection wells, and these represent schematic diagrams
4 showing how these wells were plugged. And in most
5 cases, there is a sundry notice attached to the plugged
6 diagrams that support the plugging data that we have.

7 Q. Are any of these problem wells, in your
8 opinion?

9 A. In my opinion, there are no problem wells. I
10 might point out, there are a couple of wells that don't
11 have bottom plugs, and that's because Celero couldn't
12 get down to the bottom on a couple of these wells. And
13 I can reference those wells if you would like,
14 Mr. Examiner.

15 EXAMINER JONES: They're all here listed,
16 though, aren't they? Shown?

17 THE WITNESS: Yes, the diagrams are all
18 here. Like I said, there are a couple of wells that
19 don't have bottom plugs, and if you want me to -- I
20 think they're fine because there are still plugs up-hole
21 and basically the salt section is isolated. There are
22 no producing formations above the Queen -- Yates is
23 present out here, but it's not productive. And then the
24 salt goes from about 1500 to 2200 out here. So
25 basically the salt is isolated in all of these plugged

1 wells.

2 Q. (BY MR. BRUCE) And pages 159 through 163, do
3 they contain water analyses as required by the C-108?

4 A. That's correct. There's a water analysis from
5 a producing well, the Rock Queen Unit Number 84, and
6 that is the water that we'll inject -- injecting
7 produced water.

8 Q. And I think this was testified to at some of
9 the other hearings in this matter. There is the
10 potential to use some fresh water as make-up injection
11 water?

12 A. I believe that there is in some -- I'm not sure
13 exactly how much they're using, but there is -- they do
14 have some wells where they use make-up fresh water.

15 Q. Do you foresee any compatibility issues between
16 the injection water and the formation water?

17 A. No. On page 161, it shows a compatibility
18 test.

19 Q. And on page 164, there is the statement
20 regarding any evidence of a hydrological connection.
21 Have you reviewed the data and found any connection
22 between zones?

23 A. I have not.

24 MR. BRUCE: And the rest of that,
25 Mr. Examiner, of the C-108, is the notice, matters which

1 we have previously discussed.

2 Q. (BY MR. BRUCE) Mr. Catanach, in your opinion,
3 is the granting of this application in the best interest
4 of conservation and the prevention of waste?

5 A. Yes.

6 MR. BRUCE: We've already identified the
7 exhibits and who prepared them, Mr. Examiner, so I'd
8 move for the admission of Exhibits 3 and 4.

9 EXAMINER JONES: Exhibits 3 and 4 will be
10 admitted.

11 (Celero Energy II, LP Exhibits Numbers 3
12 and 4 were offered and admitted into
13 evidence.)

14 MR. BRUCE: I have no further questions of
15 this witness.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. The biggest question I've got is the -- and I
19 may have asked this in the last hearing, but produced
20 gas versus reinjected produced gas, does that -- does
21 that have a pressure limit, or do you just assume that's
22 going to be the CO2 pressure limit?

23 A. I would assume that would be the CO2 pressure
24 limit, because they did not ask for a separate limit on
25 the produced gas. So I assume that they're just abiding

1 by the CO2.

2 Q. And they are going to -- they're not going to
3 fractionate the gas? They're going to reinject --
4 inject the methane/ethane?

5 A. That's my understanding.

6 Q. Well, I think that the new acid gas rule is
7 going to address notice issues for EOR projects, but
8 hopefully all of these have already been done by the
9 time the rule comes out; it's going to be fine. But the
10 C-108, anyway, it looks -- thanks for presenting it.

11 I can't think of any more questions.

12 Fourteen wells don't have API numbers in
13 here, so I can just pen them in real quickly, and it
14 will be fine?

15 A. Yes, sir. All the information should be in
16 here. If you need anything else, you can ask.

17 Q. Okay. Thank you very much.

18 EXAMINER JONES: With that, we'll take
19 14942 and we'll continue it to February 21st. That's
20 approximately four weeks.

21 MR. BRUCE: Yes, sir.

22 EXAMINER JONES: And no more cases on the
23 docket. The docket is closed.

24 (Case 14942 concludes if the 5th day of the docket
25 concludes.) the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner

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.



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