

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

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

ORIGINAL

APPLICATION OF CHEVRON  
MIDCONTINENT, L.P. FOR A  
NONSTANDARD SPACING AND  
PRORATION UNIT AND  
COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO.

CASE NO. 15236

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 20, 2014

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, William V. Jones,  
Chief Examiner, and Gabriel Wade, Legal Examiner, on  
Thursday, November 20, 2014, at the New Mexico Energy,  
Minerals and Natural Resources Department, Wendell Chino  
Building, 1220 South St. Francis Drive, Porter Hall,  
Room 102, Santa Fe, New Mexico.

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  
(505) 843-9241



1 (10:30 a.m.)

2 EXAMINER JONES: Let's call Case 15236,  
3 application of Chevron Midcontinent, L.P. for a  
4 nonstandard spacing and proration unit and compulsory  
5 pooling, Lea County, New Mexico.

6 Call for appearances.

7 MS. KESSLER: Mr. Examiner, Jordan Kessler,  
8 with the Santa Fe office of Holland & Hart, for the  
9 Applicant.

10 EXAMINER JONES: Any other appearances?

11 MS. KESSLER: I have two witnesses today.

12 EXAMINER JONES: Will the court reporter  
13 please swear in the witnesses?

14 (Mr. Levine and Mr. Swenberger sworn.)

15 JASON LEVINE,  
16 after having been first duly sworn under oath, was  
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. KESSLER:

20 Q. Would you please state your name for the record  
21 and tell the Examiners by whom you're employed and in  
22 what capacity?

23 A. Yes. My name is Jason Levine. I'm employed by  
24 Chevron as a land representative in Lea County, New  
25 Mexico.

1 Q. Have you previously testified before the  
2 Division?

3 A. Yes.

4 Q. And were your credentials as an expert in  
5 petroleum land matters accepted and made a matter of  
6 public record at that time?

7 A. Yes.

8 Q. Are you familiar with the application that's  
9 been filed in this case?

10 A. I am.

11 Q. And are you familiar with the status of the  
12 lands in the subject area?

13 A. Yes.

14 Q. Has an APD been approved for this well?

15 A. Not yet. We expect the APD to be approved by  
16 the end of November of '14, no later than the first week  
17 in December.

18 MS. KESSLER: Mr. Examiner, I tender  
19 Mr. Levine as an expert witness in petroleum land  
20 matters.

21 EXAMINER JONES: He is so qualified.

22 Q. (BY MS. KESSLER) Let's begin by discussing the  
23 application filed by Chevron, if you could turn to  
24 Chevron Exhibit Number 1.

25 A. Yes.

1 Q. And identify this exhibit and outline what the  
2 company seeks under the application.

3 A. This is a Form C-102, and it's showing that  
4 Chevron seeks to create a 160-acre nonstandard spacing  
5 and proration unit in the west half-west half of Section  
6 11, Township 24 South, Range 34 East in Lea County, for  
7 the Antelope Ridge 11-24-34 3H well.

8 The proration unit is located in the Red  
9 Hills-Bone Spring North pool, and that pool code is  
10 96434. And Chevron seeks to pool all uncommitted  
11 mineral interest owners in the west half of the west  
12 half of Section 11.

13 Q. Mr. Levine, do Special Pool Rules apply to this  
14 formation?

15 A. No.

16 Q. And does this exhibit reflect the completed  
17 interval for this well will comply with the Division's  
18 330-foot setback rules?

19 A. Yes.

20 Q. Is the west half-west half of Section 11 all  
21 federal land?

22 A. Yes. The west half of the west half of Section  
23 11 is all federal.

24 Q. And if you could turn to Chevron Exhibit Number  
25 2 and identify the working interest owners in the

1 proposed spacing unit.

2 A. Yes. Chevron Midcontinent, Limited Partnership  
3 owns a 75 percent working interest in the west half of  
4 the west half. COG Operating, Limited Liability  
5 Company, also known as Concho, owns a 25 percent working  
6 interest. Those are all the interest owners in this  
7 proration unit.

8 Q. What interests do you seek to pool?

9 A. COG Operating, LLC's 25 percent working  
10 interest.

11 Q. Has the company been able to locate this  
12 interest owner?

13 A. Yes, it has.

14 Q. And what efforts did you undertake to reach a  
15 voluntary agreement with COG?

16 A. In May of 2014, I prepared a well proposal, an  
17 AFE, that was furnished to Concho, in particular Mike  
18 Wallace at the company, and he initially indicated that  
19 Concho would be interested in participating. In June  
20 and July, I didn't hear anything from Concho, so I  
21 called and e-mailed and ultimately spoke with their --  
22 or e-mailed their land manager. Her name is Mona Aples  
23 [phonetic] -- to see if Mr. Wallace was still with the  
24 company, if he was still interested in participating in  
25 the well. Ultimately, I did receive an election by :

1 Concho to elect to participate in this well. That took  
2 place within the last four weeks.

3           However, at this point Chevron and Concho  
4 have not yet entered into a Joint Operating Agreement.  
5 That is pending, and so that's why we're here.

6           Q. Is Exhibit 3 a well proposal letter that was  
7 sent to COG?

8           A. Yes, it is.

9           Q. And should Chevron still be interested in  
10 receiving a signed JOA after this hearing, in that  
11 event, would the JOA be entered in any record from this  
12 hearing?

13           A. Yes. Chevron's interested in entering into a  
14 JOA with Concho, and that JOA would supersede your  
15 order, Mr. Examiner.

16           Q. If you could turn to Exhibit 4, when you sent  
17 the well proposal letter to COG, did it also contain an  
18 AFE?

19           A. Yes, the AFE listing the drilling completion,  
20 the facilities costs. And then they're highlighted in  
21 the letter themselves -- the letter itself.

22           Q. Are the costs reflected on this AFE consistent  
23 with what Chevron has incurred for drilling similar  
24 horizontal wells in the area?

25           A. Yes.

1 Q. Have you identified in your JOA the overhead  
2 and administrative costs while drilling this well and  
3 also while producing it, if you should be successful?

4 A. Yes. So our drilling rates are 6,500, and our  
5 producing rates are going to be 600.

6 Q. And are these costs in line with what Chevron  
7 and other operators in the area charge for similar  
8 wells?

9 A. Yes.

10 EXAMINER JONES: I'm sorry. Could you  
11 repeat those numbers?

12 THE WITNESS: 6,500 for drilling and then  
13 600 for producing.

14 EXAMINER JONES: Thank you.

15 THE WITNESS: You're welcome.

16 Q. (BY MS. KESSLER) Do you also ask that any  
17 administrative and overhead costs be incorporated in any  
18 order that results from this hearing?

19 A. Yes.

20 Q. And do you ask as well for an adjustment in  
21 accordance with the appropriate accounting procedures?

22 A. Yes.

23 Q. And with respect to any uncommitted interest  
24 owners, do you request the Division impose a 200 percent  
25 risk penalty?

1 A. Yes.

2 Q. Did Chevron identify the lease mineral interest  
3 owners in the 40-acre tracts surrounding the proposed  
4 nonstandard unit?

5 A. Yes, it did.

6 Q. Are these offsets reflected in Exhibit 5?

7 A. Yes. Exhibit 5 lists the offsetting interest  
8 owners.

9 Q. And did Chevron include these lease mineral  
10 interest owners in the notice for this hearing?

11 A. Yes.

12 Q. Is the Notice of Hearing sent to these offset  
13 and pooled parties contained in Exhibit 6?

14 A. Yes.

15 Q. Was it necessary to publish notice, or were all  
16 of the pooled parties locatable?

17 A. All the pooled parties were locatable.

18 Q. And were Exhibits 1 through 5 prepared by you  
19 or compiled under your direction or supervision?

20 A. Yes, they were.

21 MS. KESSLER: Mr. Examiner, I'd move the  
22 admission of Exhibits 1 through 6, which includes the  
23 affidavit prepared by me.

24 EXAMINER JONES: 1 through 6 are admitted.

25 (Chevron Midcontinent, L.P. Exhibit Numbers

1                   1 through 6 were offered and admitted into  
2                   evidence.)

3                   CROSS-EXAMINATION

4 BY EXAMINER JONES:

5           Q.    The 330 feet -- I can ask the next witness, but  
6           why did you start the well exactly 330 feet? Why didn't  
7           you move back further toward the leaseline to get more  
8           acreage, more link to the well? Is there any land  
9           reason why?

10          A.    Nothing related to land.

11          Q.    Okay. That's fine.

12                    So your offset is fee in the middle of the  
13           section?

14          A.    Yes.

15          Q.    So fee.

16                    And this is all federal?

17          A.    The west half of the west half is federal. The  
18           east half of the east half is federal and then the  
19           middle --

20          Q.    Is fee?

21          A.    Yes.

22          Q.    And how many tracts -- federal tracts do you  
23           have in your well?

24          A.    One.

25          Q.    One continuous tract?

1 A. Yes.

2 Q. So you say Concho is interested in  
3 participating in the well, but they're not interested in  
4 your JOA? They don't like the terms of your JOA?

5 A. No. Concho has elected to participate in the  
6 well, but last time I spoke with Concho, which was  
7 probably two months ago, with respect to the Joint  
8 Operating Agreement, I was told that it's -- our Joint  
9 Operating -- Chevron's Joint Operating Agreement is in a  
10 queue with Concho's Legal Department to be reviewed and  
11 Concho expects to furnish Chevron with its red line, its  
12 comments to Chevron's Joint Operating Agreement shortly.

13 EXAMINER WADE: I actually have a question  
14 regarding that.

15 THE WITNESS: Yes.

16 CROSS-EXAMINATION

17 BY EXAMINER WADE:

18 Q. If a JOA is entered -- this may be more for  
19 Ms. Kessler -- wouldn't it be appropriate to then amend  
20 the issue of compulsory pooling as to COG?

21 MS. KESSLER: Absolutely, Mr. Examiner. I  
22 believe that the order -- the JOA would supersede any  
23 order by this Division.

24 EXAMINER WADE: It may supersede it, but  
25 you would have to amend the actual OCD order. In other

1 words, it may supersede the context of your agreement,  
2 but they would no longer be compulsory pooled.

3 MS. KESSLER: In that case, we would be  
4 happy to amend the order.

5 CONTINUED CROSS-EXAMINATION

6 BY EXAMINER JONES:

7 Q. So Concho has not signed the AFE, though? I  
8 know they haven't signed the JOA, but they haven't  
9 signed the AFE either?

10 A. They've signed the AFE. They just haven't  
11 signed the JOA.

12 Q. Now, what do you envision signing an AFE means?  
13 Does that mean that they want to -- that they agree to  
14 the operating -- the cost of -- the estimated cost, or  
15 does that mean that they agree to participate in the  
16 well?

17 A. Right. So my view would be that until a Joint  
18 Operating Agreement is entered into by the parties, then  
19 the operations with respect to that well are in suspense  
20 because there is no document governing -- for example,  
21 drilling and producing rates, initial test well, all the  
22 details that are necessary. It's the forced pooling  
23 order, quite frankly, that functions like a Joint  
24 Operating Agreement in the absence of a Joint Operating  
25 Agreement.

1 Q. A forced pooling order requires the parties  
2 that don't want to participate in the well to pay their  
3 share of the costs, but you're saying that it actually  
4 covers the operating costs also -- I mean for the COPAS,  
5 it would.

6 A. Yes.

7 Q. But the COPAS is just the overhead rate. Huh.  
8 Sounds like a legal issue to me, another one.

9 EXAMINER WADE: I mean, that's why my  
10 feeling is you would want to apply to amend the  
11 compulsory pooling order at that point, to remove COG  
12 from it, if a JOA is entered.

13 THE WITNESS: We're happy to amend the  
14 pooling order. But in the absence of the pooling order,  
15 Chevron doesn't believe it can in good faith proceed to  
16 drill the well.

17 EXAMINER JONES: Yeah.

18 THE WITNESS: Chevron needs either the  
19 Joint Operating Agreement or the forced pooling order,  
20 but if we get the forced pooling order and then we get  
21 the JOA, we're happy to amend the forced pooling order.

22 EXAMINER JONES: Yeah. The findings we  
23 have to make -- I don't remember the exact language, but  
24 I think it's that some parties have not agreed to  
25 participate in the well. So I don't remember us making

1 findings about assigning a JOA, but --

2 MS. KESSLER: Mr. Examiner, it would be  
3 Chevron's position that an AFE doesn't comprise a  
4 voluntary agreement in its entirety and that there are  
5 still terms missing that would be provided by the forced  
6 pooling order. Again, in the event that a JOA is  
7 entered, we'll amend the orders.

8 EXAMINER JONES: Okay. Does your witness  
9 agree with that?

10 THE WITNESS: Yes.

11 EXAMINER JONES: Thank you very much.

12 THE WITNESS: You're welcome.

13 CARL SWENBERG,  
14 after having been previously sworn under oath, was  
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MS. KESSLER:

18 Q. Could you please state your name for the record  
19 and tell the Examiner by whom you're employed and in  
20 what capacity?

21 A. My name is Carl Swenberg. I'm a geologist for  
22 Chevron's Delaware Basin asset team. I work 2nd Bone  
23 Spring in Lea and Eddy Counties, and I've been on that  
24 team since September of 2013.

25 Q. Have you previously testified before the

1 Division?

2 A. I have not.

3 Q. Could you outline your educational background,  
4 please?

5 A. I received a bachelor's in science from the  
6 University of Nevada, Las Vegas in 2009 and a master's  
7 in geology in 2012.

8 Q. And have you worked for Chevron since you  
9 received your master's degree?

10 A. I worked for Chesapeake Energy from 2012 to  
11 September of 2013 and then moved to Chevron.

12 Q. Can you discuss your experience in the Permian  
13 Basin?

14 A. I've been working on characterization and  
15 generation of prospects in the 2nd Bone Spring Formation  
16 in northern Culberson County, Texas, Lea and Eddy  
17 Counties, New Mexico in the Delaware Basin.

18 Q. Are you a member of any professional  
19 associations?

20 A. I'm a member of the American Association of  
21 Petroleum Geologists.

22 Q. Are you familiar with the application that's  
23 been filed in this case?

24 A. I am.

25 Q. And did you oversee and approve the geologic

1 study of the lands that are subject of this application?

2 A. I did.

3 MS. KESSLER: I would tender Mr. Swenberg  
4 as an expert witness in petroleum land -- excuse me --  
5 petroleum geology.

6 EXAMINER JONES: He is so qualified.

7 Q. (BY MS. KESSLER) If you could turn to Exhibit  
8 Number 7.

9 A. Sure. I have prepared here a structure map of  
10 the top of the 2nd Bone Spring sand. I've got my  
11 control points shown on there with the name of the well,  
12 along with the depth of the top and subsurface and TVD.  
13 I guess what I would -- then the section of interest  
14 there is shown outlined in red. In purple is the unit  
15 that we're discussing. Then I have the schematic  
16 location of the wellbore and its direction being drilled  
17 from south to north with a green arrow.

18 Things I would point out is that over the  
19 unit of interest, it's structurally consistent. There  
20 is no faulting or pinch-outs in the 2nd Bone Spring.  
21 And it looks like an ideal target for a horizontal well.

22 Q. Can you identify any other geologic impediments  
23 for a horizontal well?

24 A. No, I cannot.

25 Q. Okay. Would you turn to Exhibit 8, please?

1           A.    This is a cross section.  It's shown from A to  
2   A prime on the map in the previous exhibit.  I go from  
3   south to north from the Salvador Fee through the planned  
4   location, the State #2 to the north of that, and finally  
5   the State #1.  The digital logs that you see here are  
6   gamma ray, resistivity and density and neutron porosity.

7                    So I consider the -- I'm sorry.  The  
8   orangish-red top that you see there at the top of the  
9   2nd Bone Spring sand and at the base, that orange line  
10  is the 2nd Bone Spring base.  So these logs, when you  
11  see blue, that generally indicates carbonate in the  
12  gamma ray log, and yellow and red are sands and shales.

13                   So the target zones are highlighted in red.  
14  We've been targeting towards the base of this interval,  
15  and as you see, it's consistent across the unit.  
16  Although I consider the entire formation perspective,  
17  the red zones are the extra-perspective zones.

18           Q.    Do you consider these wells representative of  
19  the wells in the area?

20           A.    I do.

21           Q.    And can you identify continuity across the  
22  proposed --

23           A.    I can.

24           Q.    What conclusions have you drawn from the study  
25  done by your geologic team?

1       A.    Overall I'd say that this area is more or less  
2    identical to other perspective areas in the Basin in the  
3    2nd Bone Spring.  I see no impediment to drilling a well  
4    along the full section there as a horizontal well.  It's  
5    the most efficient and effective way to develop this  
6    unit, and I would expect all of it to contribute more or  
7    less equally to production.

8       Q.    Do you believe a horizontal well is the best  
9    method for draining this section?

10      A.    Yes.

11      Q.    If you could refer back to Exhibit Number 1,  
12    please -- and this would be the C-102 -- does this C-102  
13    illustrate that you propose to have your perf -- the  
14    last perf occur at 330 feet from the boundary line on  
15    the nonstandard unit?

16      A.    Yes, it does.

17      Q.    So this does comply with the 330-foot statewide  
18    setback requirements?

19      A.    Yes.

20      Q.    In your opinion, will the granting of this  
21    application be in the best interest of conservation, for  
22    the prevention of waste and the protection of  
23    correlative rights?

24      A.    Yes, I do [sic].

25      Q.    And were Chevron Exhibits 7 through 8 prepared

1 by you or compiled under your direction or supervision?

2 A. Yes.

3 MS. KESSLER: I would move the admission of  
4 Exhibits 7 and 8 into evidence.

5 EXAMINER JONES: Exhibits 7 and 8 are  
6 admitted.

7 (Chevron Midcontinent, L.P. Exhibit Numbers  
8 7 and 8 were offered and admitted into  
9 evidence.)

10 CROSS-EXAMINATION

11 BY EXAMINER JONES:

12 Q. I guess, first of all, it looks like the  
13 application says the surface-hole location will be in  
14 Unit D, and everything else says -- and your map shows  
15 the surface-hole location is in Unit M. I don't guess  
16 that's an issue, really, but is there a reason for that?

17 A. Is it -- am I misunderstanding?

18 MS. KESSLER: I'm sorry. Which exhibit  
19 were you looking at, Mr. Examiner?

20 EXAMINER JONES: It's Exhibit 7, I think.

21 THE WITNESS: Is the direction of lateral?

22 EXAMINER JONES: Yes.

23 MS. KESSLER: I believe that indicates --  
24 the green line indicates the first interval as opposed  
25 to the surface location.

1 EXAMINER JONES: So the arrow really -- I  
2 can ignore that arrow?

3 THE WITNESS: Yes, sir.

4 EXAMINER JONES: I'll ignore the arrow.

5 Q. (BY EXAMINER JONES) And how come you start at  
6 330 and didn't closer to the lease line so you get more  
7 wellbore?

8 A. As I understand it, Mr. Examiner, it's a  
9 statewide field rule for the 2nd Bone Spring horizontal  
10 development, as I understand.

11 Q. Actually, the rules are that the first  
12 perforation from the heel of the well out has to be 330.

13 A. Okay.

14 Q. So you could have gotten another 160 feet if  
15 you would have probably drilled closer to the lease line.

16 A. If I'm not mistaken -- please correct me, but  
17 it shows the plan of the perf, not the directional plan  
18 of the well.

19 MS. KESSLER: Exhibit 7?

20 THE WITNESS: I'm sorry. Exhibit 1.

21 MS. KESSLER: The surface location is shown  
22 as being 330 feet.

23 EXAMINER JONES: The first perf. But it's  
24 also shown on the C-102 as the surface-hole location, as  
25 330.

1 MS. KESSLER: That's correct.

2 Q. (BY EXAMINER JONES) And it takes about 500 feet  
3 to make the curve. Are you perforating all the way up?  
4 You're not, are you?

5 A. No.

6 Q. I'm just being -- it's just a prevention of  
7 waste type deal here --

8 A. I agree.

9 Q. -- instead of leaving undrilled acreage. I  
10 guess I'm being picky, too, so --

11 I guess I better ask you if you're -- have  
12 you seen some wells drilled in here? Do you lose  
13 circulation some places in the Bone Spring?

14 A. I'm not familiar with any problems with loss of  
15 circulation in this area.

16 Q. Okay. That carbonate -- you don't have much  
17 carbonate in this well in the --

18 A. The Salvador?

19 Q. The third -- you've got the little blue marks  
20 there.

21 A. Uh-huh.

22 Q. Would those be more porous than the sands?

23 A. They'd be slightly less porous than the sands,  
24 and this is, I think, mostly an issue of digital  
25 representation of a gamma ray count. But they are

1 certainly not impediments to the frack, and we've  
2 drilled wells similarly with no issues.

3 Q. So if your neighbor proposed a saltwater  
4 disposal well in this zone, would you approve it --  
5 would you object to it?

6 A. I would object.

7 Q. You would object to even the carbonates being  
8 used?

9 A. Yes, sir.

10 Q. Okay. That's all the questions I've got.  
11 Thank you.

12 MS. KESSLER: Thank you.

13 THE WITNESS: Thank you, Mr. Examiner.

14 EXAMINER JONES: With that, Case 15236 will  
15 be taken under advisement.

16 I think we've only got two more cases.  
17 Anybody need a break? Let's come back at 11:00. Go off  
18 the record.

19 (Case Number 15236 concludes, 10:53 a.m.;  
20 break taken, 10:53 a.m. to 11:00 a.m.)

21  
22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_,  
heard by me on \_\_\_\_\_.

24 \_\_\_\_\_, Examiner  
25 Oil Conservation Division

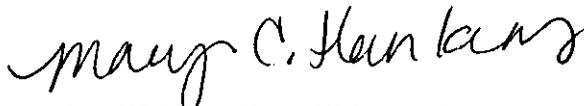
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3  
4 CERTIFICATE OF COURT REPORTER

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

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

15 I FURTHER CERTIFY that I am neither  
16 employed by nor related to any of the parties or  
17 attorneys in this case and that I have no interest in  
18 the final disposition of this case.

19  
20 

21 MARY C. HANKINS, CCR, RPR  
22 Paul Baca Court Reporters, Inc.  
23 New Mexico CCR No. 20  
24 Date of CCR Expiration: 12/31/2014  
25