

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

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

APPLICATION OF CHEVRON USA, INC.
FOR APPROVAL OF THE CICADA UNIT,
EDDY COUNTY, NEW MEXICO.

CASE NO. 15845

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 28, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
LEONARD LOWE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Leonard Lowe, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, September 28, 2017, 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
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1 APPEARANCES

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1 (8:22 a.m.)

2 EXAMINER DAWSON: And we will now go on
3 to -- let's see. We will go now to Case Number 21 on
4 the list, which is Case Number 15845.

5 And at this time, I will call for
6 appearances.

7 MS. KESSLER: Mr. Examiners, Jordan
8 Kessler, from the Santa Fe office of Holland & Hart, on
9 behalf of the Applicant.

10 EXAMINER DAWSON: okay.

11 MS. KESSLER: I have two witnesses today.

12 EXAMINER DAWSON: Case Number 15845 is
13 application of Chevron USA, Incorporated for approval of
14 the Cicada Unit in Eddy County, New Mexico.

15 Will your witnesses please stand to be
16 sworn by the court reporter?

17 (Ms. Tarr Delach and Ms. Fogaren sworn.)

18 EXAMINER DAWSON: Okay. Ms. Kessler, you
19 may continue.

20 MS. KESSLER: Thank you.

21 AMBER TARR DELACH,
22 after having been first duly sworn under oath, was
23 questioned and testified as follows:

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DIRECT EXAMINATION

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BY MS. KESSLER:

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

A. Amber Tarr Delach, Chevron USA, Inc., land representative.

Q. Have you testified before the Division?

A. Yes.

Q. Were your credentials as a petroleum landman accepted and made a matter of public record?

A. Yes.

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

A. I am.

Q. And are you familiar with the and -- approval of the proposed exploratory unit?

(Extremely loud coughing in the room prevents the court reporter from hearing the testimony properly.)

A. Yes.

MS. KESSLER: Mr. Examiner, I would tender Ms. Tarr Delach as an expert in petroleum land matters.

EXAMINER DAWSON: She is so admitted.

Q. (BY MS. KESSLER) Can you please turn to Exhibit

1 1? What is Chevron seeking under this application?

2 A. We're seeking approval of the Cicada Unit.

3 Q. So a resource development unit, correct?

4 A. Correct.

5 Q. And is that approval required by the unit
6 agreement?

7 A. Correct.

8 Q. This is a voluntary development unit, correct?

9 A. Yes.

10 Q. And is it comprised of approximately 5,760
11 areas?

12 A. Yes.

13 Q. This includes both federal and state acreage?

14 A. Yes.

15 Q. Do you seek to unitize the Wolfcamp Formation
16 only?

17 A. Yes, we do.

18 Q. Is Exhibit 1 a copy of the unit agreement for
19 the resource development unit?

20 A. Sorry. Exhibit 1? Oh, okay. A copy of what?
21 I'm sorry.

22 Q. The resource development unit agreement.

23 A. Yes, it is.

24 Q. Does this only apply for horizontal
25 development?

1 A. Yes.

2 Q. So not to vertical development?

3 A. No.

4 Q. And will the unit be treated as a single
5 participating area?

6 A. Yes.

7 Q. Does the unit agreement also contain
8 contraction language?

9 A. Yes, it does. It's located on page 3 and
10 extends onto page 4.

11 Q. If I turn to Tab A of the unit agreement, does
12 this provide, on the second page, an outline of the unit
13 area?

14 A. Yes, it does. The outline in red is the unit
15 area.

16 Q. Does this include approximately five federal
17 leases and seven state leases?

18 A. Yes.

19 Q. And if I look at Exhibit B, is this an
20 ownership breakdown of ownership within the unit area?

21 A. Yes, it is.

22 Q. Does Chevron own 100 percent of nine out of the
23 11 leases?

24 A. Yes, we do.

25 Q. And for the remaining two leases, does Chevron

1 own approximately 95 percent?

2 A. Yes.

3 Q. Is Read & Stevens the only other working
4 interest owner?

5 A. Yes.

6 Q. And they own about 5 percent of their two
7 leases, correct?

8 A. Correct.

9 Q. What is your discussion with them?

10 A. I have been in contact with the land rep at
11 Read & Stevens. He has told me that he's passed on my
12 inquiries and contact information to the
13 decision-makers, but I have yet to hear from the
14 decision-makers.

15 Q. But you followed up multiple times?

16 A. Yes. Uh-huh.

17 Q. Do you anticipate, prior to final approval,
18 that Read & Stevens will achieve some sort of agreement
19 with Chevron?

20 A. I do.

21 Q. Are there any overriding royalty interests in
22 this unit?

23 A. Yes, there are. There are four overriding
24 royalty interest owners.

25 Q. Would that be Curtis Mewbourne, Trustee;

1 **Chevron USA, Inc.; EOG Y Resources; and OXY Y-1?**

2 A. Yes.

3 **Q. How will you treat the overriding interest**
4 **owners?**

5 A. So we will actually seek to get them to sign
6 the unit and then treat them as a unit basis. If they
7 don't sign, then we will treat them as a lease basis.

8 **Q. Were they all provided notice of this hearing?**

9 A. Yes.

10 **Q. What is Exhibit C to the unit agreement?**

11 A. Exhibit C is the stratigraphic type log for the
12 Wolfcamp and the --

13 **Q. This just emphasizes and shows that Chevron**
14 **only seeks to unitize the Wolfcamp Formation?**

15 A. Correct.

16 **Q. Did you discuss the proposed unit with the BLM**
17 **in Carlsbad?**

18 A. Yes. We actually met with the BLM on two
19 occasions and then received preliminary approval.

20 **Q. And did you present your development plan to**
21 **them?**

22 A. Yes, we did.

23 **Q. Is Exhibit 2 a copy of the preliminary approval**
24 **letter that's been provided by the BLM?**

25 A. Yes, it is.

1 **Q. Did you also meet with the State Land Office to**
2 **discuss this unit?**

3 A. Yes. We also presented it to the State Land
4 Office and received preliminary approval.

5 **Q. And that letter is presented as Exhibit 3,**
6 **correct?**

7 A. Correct.

8 **Q. I'm going to ask you to turn back to Tab A of**
9 **Exhibit 1. Does the red boundary show the lands that**
10 **you intend to include in the unit?**

11 A. Yes, it does.

12 **Q. Why are you not including Section 13 or the**
13 **east half of Sections 11 and 14?**

14 A. Those are unleased BLM acres. Well, the east
15 half of 11 and 14 are unleased, and the north portion of
16 13 is BLM unleased acreage. We originally put that in
17 our proposed unit, but upon presentation to the State
18 Land Office, we were asked to remove the unleased BLM
19 acreage from our unit boundary.

20 **Q. Did Chevron provide notice to the BLM and any**
21 **other owners of the actual lease in the east half of 11**
22 **and 14 and the north half of Section 13 of this hearing?**

23 A. Yes.

24 **Q. Is Exhibit 4 a copy of the C-102 for the**
25 **initial development well?**

1 A. Yes, it is. This is our initial validation
2 well.

3 **Q. And has Chevron submitted other APDs to the**
4 **BLM?**

5 A. Yes. Other APDs within the boundary have been
6 submitted.

7 **Q. But they have not been approved; is that**
8 **correct?**

9 A. To my knowledge, no.

10 **Q. Is Exhibit 5 a copy of the development plan?**

11 A. Yes, it is.

12 **Q. And this discusses an approximately five-year**
13 **development plan?**

14 A. Yes.

15 **Q. Are any of these wells drilled?**

16 A. The initial validation well that the C-102
17 covers in Exhibit 4 has been spud but not completed.

18 **Q. And for each of these green-dashed lines, do**
19 **these represent a single well, or will there be multiple**
20 **wells in each of these --**

21 A. There will be multiple wells, so we are
22 targeting three benches in the Wolfcamp. So there will
23 actually be 18 Wolfcamp wells in, I guess, each section,
24 but for two-mile purposes, each two sections.

25 **Q. Sure. Okay.**

1 Did you provide notice of this hearing to
2 the other working interest owner, the overriding royalty
3 interest owners and what we'll call the offsets --
4 offset interest owners?

5 A. Yes.

6 Q. They were provided notice of this hearing?

7 A. Yes.

8 Q. Is Exhibit 6 an affidavit prepared by my office
9 with an attached letter reflecting that notice?

10 A. Yes.

11 Q. And is Exhibit 7 a Notice of Publication?

12 A. Yes.

13 Q. Were Exhibits 1 through 5 prepared by you or
14 compiled under your direction and supervision?

15 A. Yes.

16 MS. KESSLER: Mr. Examiner, I move
17 admission of Exhibits 1 through 7.

18 EXAMINER DAWSON: Okay. Exhibits 1 through
19 7 will be admitted to the record.

20 (Chevron USA, Inc. Exhibit Numbers 1
21 through 7 are offered and admitted into
22 evidence.)

23 EXAMINER DAWSON: Do you have any
24 questions, David?

25 EXAMINER BROOKS: I don't have any

1 questions.

2 EXAMINER DAWSON: Do you have any
3 questions, Leonard?

4 EXAMINER LOWE: I've got a quick question.
5 I didn't catch it.

6 CROSS-EXAMINATION

7 BY EXAMINER LOWE:

8 Q. On your, I think, Exhibit 8 --

9 A. 8.

10 Q. -- basically your map, on Section 13, you said
11 the BLM has -- it's unleased acreage. You said somebody
12 informed you about that. Who told you about that?

13 A. Well, we were aware of the unleased acreage,
14 but -- and we had initially proposed to include all of
15 those in our boundary, but when we presented that to the
16 Commissioner of Public Lands at the New Mexico State
17 Land Office, he requested we remove the unleased
18 acreage -- the unleased BLM acreage from our unit
19 boundary.

20 Q. All right. Thanks. That's what I thought.

21 CROSS-EXAMINATION

22 BY EXAMINER DAWSON:

23 Q. Good morning.

24 The only questions I have are on that
25 unleased acreage, that's the east half of 11, the east

1 **half of Section 14 and the north half of Section 13 in**
2 **Township 26 South, Range 27 East; is that correct?**

3 A. Correct. On 13, it's actually the northwest
4 quarter --

5 **Q. Oh, northwest quarter.**

6 A. -- and the east half of the northeast quarter.

7 **Q. Okay.**

8 A. Sorry. The west half of northeast quarter.

9 MS. KESSLER: I think, Mr. Examiners, this
10 is best reflected on Exhibit 5.

11 THE WITNESS: Yes. And the
12 northeast-northeast quarter. So we have a 40-acre --
13 Chevron owns the lease represented in the southeast
14 quarter of the northeast quarter, as well as the south
15 half of 13.

16 **Q. (BY EXAMINER DAWSON) Okay.**

17 A. The portion in white there in 13 is unleased
18 BLM acreage.

19 **Q. Okay. So the south half down there in the**
20 **southeast quarter of the northeast quarter of 13, that's**
21 **not included in the unit?**

22 A. Correct. No, because -- since we were asked to
23 remove the unleased acreage and in order for it to be
24 contiguous, we had to remove all of 13.

25 **Q. Okay. Do you know if Chevron is attempting to**

1 **lease that acreage?**

2 A. Yes. So this unleased BLM acreage is actually
3 part of the -- of an area of critical environmental
4 concern that currently has a resource management plan
5 being conducted for that, and it has not been published
6 yet. So in our conversations with the BLM, until that
7 RMP is published, they will not put this acreage up to
8 be leased.

9 Q. Okay. Did they give you any kind of idea of
10 the date that may be done?

11 A. We've received several dates, but it has gotten
12 pushed back several times.

13 Q. Okay. Are there any unlocatable interest
14 owners within the unit?

15 A. Not to my knowledge.

16 Q. Okay. And the unit -- this is a resource
17 management unit on the new unit form?

18 A. Resource development unit.

19 Q. Resource development unit.

20 A. Yes, sir.

21 Q. Resource development unit on the new unit.

22 And it does have contraction clauses, as
23 you related to, on pages 3 and 4?

24 A. Yes, sir.

25 Q. Okay. So that's -- the contractions are

1 **basically on a five-year date?**

2 A. Correct.

3 **Q. Then it would contract?**

4 A. Correct, unless the authorizing officer and
5 Commissioner of Public Lands extends that for some
6 reason -- you know, for good reason. But the
7 contraction will occur on any undeveloped acreage within
8 the unit boundary at the five-year mark.

9 **Q. Okay. And so you -- you will be required, as**
10 **stated in the unit drilling operations, no more than six**
11 **months between completion of one well and the spudding**
12 **of the next well within the unit?**

13 A. Correct.

14 **Q. The wells that are currently within the**
15 **unitized area -- are there vertical wells within the**
16 **unitized area, or do you know?**

17 A. I am not sure.

18 **Q. I guess I can ask the geologist. She may know**
19 **the answer to that question.**

20 MS. KESSLER: When she's called.

21 EXAMINER DAWSON: Okay. When she's called
22 up, I can ask her.

23 MS. KESSLER: And we can provide you that
24 information, Mr. Examiner.

25 THE WITNESS: Yes. There actually is a

1 vertical well that is noted on Exhibit A, the map that
2 has the red boundary in Section 12, Hay Hollow Unit.

3 Q. (BY EXAMINER DAWSON) Okay. Hay Hollow.

4 A. Yes, sir.

5 Q. And that well -- that well will not be included
6 within the unit?

7 A. No, sir, no vertical wells.

8 Q. Okay. And in your discussions with
9 Read & Stevens on their participation within the unit,
10 did they give you any idea as to when they may be able
11 to decide upon that?

12 A. So I haven't actually gotten to speak as to
13 participation in the unit yet. I have reached out to
14 them to try to start conversation, but I was told by the
15 landman that he needed to pass it on to the
16 decision-makers and that they would contact me, and I
17 have not connected with the decision-makers. But I
18 followed up with the landman on multiple occasions.

19 Q. And in your testimony, you said that you had
20 already spud the well?

21 A. Correct. Well, we spud the initial well.

22 Q. Do you -- do you know what depth that well was
23 drilled to at this time? I mean, are you going to be
24 able to make that agreement with Read & Stevens before
25 you cut the formation?

1 A. I believe so. So completion is targeted for, I
2 believe, March of next year, and so I believe that we'll
3 be able to come to an agreement with them.

4 **Q. Well, I'm just hoping you can come to agreement**
5 **before you drill through that formation because it's --**
6 **you know, I just want to make sure that they -- they**
7 **agree and that they make a commitment with you or a deal**
8 **with you regarding the unit before that -- that well's**
9 **totally -- drilled to the total depth.**

10 A. Absolutely. Understood. And just to give more
11 history to that, we recently acquired the Wolfcamp
12 acreage that Read & Stevens has an ownership in, and so
13 because of that, we chose -- since we're still in the
14 preliminary phase, we chose to add that section into our
15 unit. So the well was actually spud before we included
16 the section that has Read & Stevens' interest in it.

17 **Q. Oh, okay.**

18 A. So that's why I feel like we'll be able to come
19 to an agreement because we've really just begun reaching
20 out to Read & Stevens.

21 **Q. Okay. That's all the questions I have. Thank**
22 **you very much.**

23 A. Thank you.

24 EXAMINER DAWSON: You may call your next
25 witness now, Ms. Kessler.

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CAITLIN FOGAREN,

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

DIRECT EXAMINATION

BY MS. KESSLER:

Q. Please state your name for the record and tell the Examiners by whom you're employed in what capacity.

A. I'm Caitlin Fogaren. I'm employed by Chevron USA, and I'm a geologist.

Q. Have you previously testified before the Division?

A. No.

Q. Can you please outline your educational background?

A. I graduated from Pennsylvania State University in 2013 with a bachelor in sciences and geosciences, and then in 2015, I graduated from Indiana University with a master's in science and geologic sciences.

Q. What has your work experience been since your master's degree?

A. I started working with Chevron full time in August of 2015, and I have been working in the Delaware Basin in New Mexico, specifically, since then.

Q. So your entire work experience as been in the Permian Basin?

1 A. Uh-huh.

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

4 A. Yes.

5 Q. And have you conducted a geologic study of the
6 lands that are to be included within the unit?

7 A. Yes.

8 MS. KESSLER: Mr. Examiners, I would tender
9 Ms. Fogaren as an expert in petroleum geology.

10 EXAMINER DAWSON: She is so admitted.

11 Q. (BY MS. KESSLER) Are you familiar with the
12 interval that is being unitized in this Cicada Unit?

13 A. Yes.

14 Q. Does Exhibit 8 include a type log showing --
15 showing a log unitized interval?

16 A. Yes. The type log we're using is the fourth
17 from the left, Hay Hollow Unit 2, and it shows the
18 section from the top of the Wolfcamp to the base of the
19 Wolfcamp.

20 Q. And this is the same Exhibit C to the unit
21 agreement, correct? This is the stratigraphic type log
22 included as Exhibit C to the unit agreement?

23 A. Yes.

24 Q. What interval is it that Chevron seeks to
25 unitize?

1 A. From the top of the Wolfcamp to the base of the
2 Wolfcamp.

3 Q. That would be measured -- the stratigraphic
4 equivalent of TVD of 9,092 feet to the bottom, which
5 would be approximately 11,235 feet as -- in the Hay
6 Hollow 2 well?

7 (The loud squeaking examiner chairs prevent
8 the court reporter from hearing the
9 testimony properly.)

10 A. Yes.

11 Q. And in your opinion, does the interval that is
12 identified on the Hay Hollow #2 extend across the
13 proposed unit area?

14 A. Yes.

15 Q. If you could turn to Exhibit 9, is this a
16 structure map showing the proposed unit area?

17 A. Yes.

18 Q. What does this exhibit show us?

19 A. Outlined in red is the unit -- the proposed
20 unit boundary, and this is the structure map at the top
21 of the Wolfcamp and in TVD subsea. The contours are
22 every 100 feet. And it shows that through the unit, the
23 structure is relatively maintained, and it slowly dips
24 to the east, but there are no major structural changes.

25 Q. So no major variations that would be an

1 **impediment or hazard to drilling horizontal wells?**

2 A. Correct.

3 Q. I'm actually going to ask you to flip back to
4 **Exhibit 8. And this includes a cross section of the**
5 **logs, correct?**

6 A. Yes.

7 Q. **And can you just walk us through this exhibit,**
8 **please?**

9 A. Yup. So these logs are including -- what we're
10 looking at in the westmost track is the gamma ray log,
11 and that is colored with -- the warmer colors represent
12 shale units. The green and yellow represent a little
13 more sandy facies. And the cooler colors represent
14 finely interbedded carbonates. And we see that
15 relatively the log character throughout the unit is
16 maintained from A to A prime.

17 Q. **So the formation is relatively continuous**
18 **throughout the unit area?**

19 A. Correct.

20 Q. **In your opinion, is the interval Chevron seeks**
21 **to unitize continuous across the area?**

22 A. Yes.

23 Q. **And have you observed any evidence of faults or**
24 **other pinch-outs or geologic impediments that would**
25 **prevent this acreage from contributing to overall**

1 **production from the interval?**

2 A. No.

3 **Q. And in your opinion, can the unitized area be**
4 **effectively and efficiently developed under the unit**
5 **plan?**

6 A. Yes.

7 **Q. What benches of the Wolfcamp is Chevron**
8 **targeting?**

9 A. Currently, we are targeting the Wolfcamp A,
10 Wolfcamp C and Wolfcamp D.

11 **Q. So that would be a five-year development plan,**
12 **correct?**

13 A. Yes.

14 **Q. Were Exhibits 8 and 9 prepared by the Chevron**
15 **team, and did you review them prior to this hearing?**

16 A. Yes.

17 MS. KESSLER: Mr. Examiners, I move
18 admission of Exhibits 8 and 9.

19 EXAMINER DAWSON: Exhibits 8 and 9 will be
20 admitted to the record.

21 (Chevron USA, Inc. Exhibit Numbers 8 and 9
22 are offered and admitted into evidence.)

23 MS. KESSLER: Thank you.

24 EXAMINER BROOKS: No questions.

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CROSS-EXAMINATION

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BY EXAMINER DAWSON:

Q. Going back -- I'm sorry. Going back to the unit boundary, do you know if there are any other vertical wells besides the one that was defined or --

A. Off the top of my head, I'm not sure if there are any producing vertical wells.

Q. Okay. And that will be in the Purple Sage; Wolfcamp Pool; is that correct?

A. Yes.

Q. Okay. That's all the questions I have. Thank you very much.

MS. KESSLER: Thank you, Mr. Examiner.

EXAMINER DAWSON: So Case Number 15845 will be taken under advisement.

And that concludes today's hearings -- or hearing.

Thank you-all very much for coming. Hope you stay dry going home.

(Case Number 15845 concludes, 8:46 a.m.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

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MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
Paul Baca Professional Court Reporters